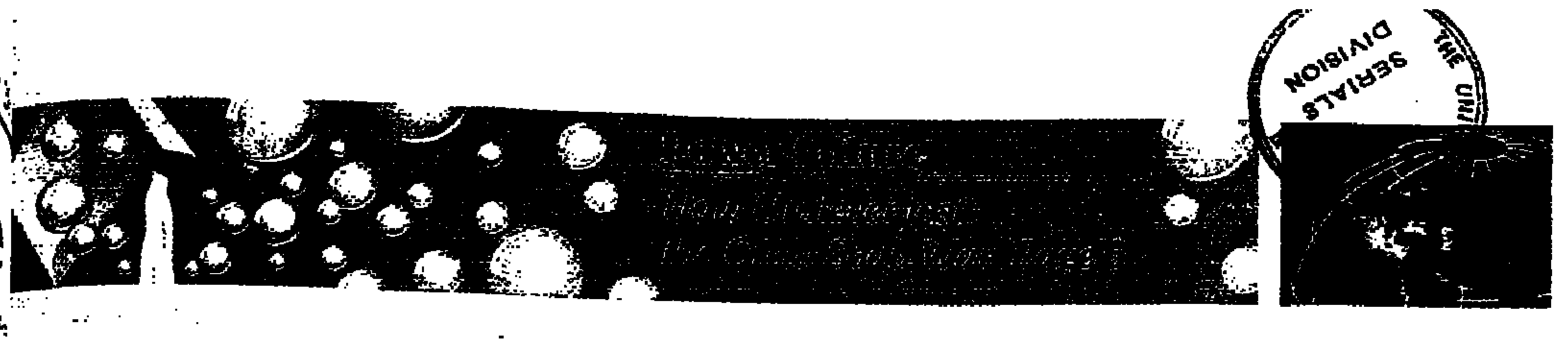


Middle East
In need of a role model
Page 13

Hype and havoc
Christmas toys for grown-ups
Page 12

FINANCIAL TIMES

Europe's Business Newspaper
WEDNESDAY DECEMBER 21 1994
D8523A

Bright future for leading economies seen by OECD

The economic outlook for the industrialised world looks brighter now than at any point in recent years, with strong growth and low inflation expected over the next two years, the Organisation for Economic Co-operation and Development said. However, the recovery could quickly sour if governments did not seize the chance to address longer-term structural problems by introducing politically sensitive reforms, the Paris-based think-tank warned. Page 14; Details, Page 4; US trade deficit up in October, Page 5

Bosnia truce agreed: Bosnia's warring factions agreed to a temporary ceasefire ahead of negotiations on a permanent end to the war by January 1, former US president Jimmy Carter said. Page 14; A very Bosnian plight, Page 12

Tokyo relaxes listing rules: The Tokyo Stock Exchange announced reforms to its restrictive listing requirements to attract companies from fast-growing Asian economies. Page 15

Pact defuses Gibraltar row: Britain and Spain defused a diplomatic row over Gibraltar by agreeing to develop more formal arrangements for tackling drugs trafficking and other illicit trade between the UK colony and the Spanish mainland. Page 2

Japan aims for austerity: Japan's finance ministry signalled a shift from an expansionary to a neutral fiscal policy in 1995 by proposing the first fall in budget outlays in 40 years. Page 4

De La Rue wins Portals' acceptance: UK security printer De La Rue's £682m ($1.1bn) offer for Portals was accepted by the specialist paper manufacturer's board. Page 15; Lex, Page 14

China accepts delay in WTO membership: China conceded defeat in its bid for early membership of the General Agreement on Tariffs and Trade and its successor, the World Trade Organisation, but said it was prepared to continue negotiations. Page 14

Patents windfall for Glaxo: UK drugs company Glaxo could earn several billion dollars in extra revenues as a result of changes in US patent laws. Page 3

Cunard blames subcontractors: Cruise operator Cunard denied being over-ambitious and blamed subcontractors for the delayed completion of a £30m ($49m) refit of the liner Queen Elizabeth 2, which resulted in 500 passengers being turned away from its Christmas cruise. Page 7

Arthur Andersen widens lead: US based accountancy firm Arthur Andersen has widened its lead over its competitors in terms of worldwide fee income, a survey shows. Page 16

Knife man shot outside White House: A man was shot and seriously injured by security guards outside the White House in Washington after he was seen brandishing a knife. Page 5

Greece to buy Russian gas: Greece has agreed with Gazprom, the Russian state gas supplier, to import natural gas from 1996 through a pipeline from Bulgaria. Page 3

Mercedes picks France for car plant: German vehicle builder Mercedes-Benz and Swiss watch group SMH are to build a DM750m ($502m) car factory in France despite political and trade union protests. It will employ 1,900 people building 200,000 cars a year. Page 3

Mattel to cut 1,000 jobs: US toymaker Mattel, which outbid Hasbro in a battle for J.W. Spear of the UK, said it would cut 1,000 jobs from its international workforce of 22,000 in an attempt to raise profitability. Page 17

Latin America failing to beat poverty: Latin America shows signs of economic improvement, but growth rates remain insufficient to reduce poverty, a United Nations economic commission report says. Page 5

Gas field development approved: The UK government approved development of the Britannia natural gas field in the North Sea, north 130 miles from Aberdeen, the biggest in the UK still untapped. Page 7

British Coal sale to raise £960m: The UK government will receive nearly £960m ($1.57bn) from the sale of British Coal's mining assets, it emerged as details were announced of the sale of the south Wales region for £94.5m. Page 19

Crackdown on abuse of legal aid: The UK government outlined plans to close loopholes in the legal aid scheme which have allowed wealthy businessmen to receive public funds to fight court actions. Page 7

■ STOCK MARKET INDICES		
FT-SE 100:	3,058.1	(+23.7)
Yield	4.21	
FT-SE Eurotrack 100	1,333.21	(+1.04)
FT-SE-A All-Share	1,514.74	(+0.6%)
Nikkei	19,406.98	(+136.13)
New York: lunchtime		
Dow Jones Ind Ave	3,771.86	(-18.84)
S&P Composite	456.91	(-1.00)
■ US LUNCHTIME RATES		
Federal Funds:	5⅞%	
3-mo Treas Bills: Yld	5.676%	
Long Bond	98½	
Yield	7.828%	
■ LONDON MONEY		
3-mo Interbank	6⅞%	(6⅜%)
Liffe long gilt future:	Mar 102⅛	(Mar 102⅞)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Feb)	$16.07	(15.905)
■ Gold		
New York Comex (Feb)	$384.2	(381.7)
London	$382.9	(379.3)

■ STERLING		
New York lunchtime:		
$	1.561	
London:		
$	1.5603	(1.5613)
DM	2.4527	(2.4571)
FFr	8.452	(8.4733)
SFr	2.0745	(2.0814)
Y	156.483	(156.387)
£ Index	80.3	(80.4)
■ DOLLAR		
New York lunchtime:		
DM	1.57075	
FFr	5.417	
SFr	1.32875	
Y	100.275	
London:		
DM	1.572	(1.5738)
FFr	5.4235	(5.4272)
SFr	1.3286	(1.3332)
Y	100.3	(100.155)
$ Index	83.5	(Same)
Tokyo close Y 100.19		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00		
Bahrain	Din1.250	Hong Kong	HK$16	Morocco	MDh15	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30		
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50		
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00		
Czech Rp	CZK50	Israel	Shk6.50	Norway	NKr17.00	Spain	Pts225		
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30		
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pes50	Syria	S£50.00		
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500		
France	FFr8.50	Lebanon	US$1.50	Portugal (mainland)	Es225	Turkey	L30000		
Germany	DM3.80	Lux	LFr65			UAE	Dh12.00		

Berlusconi ready to press for early elections

By Robert Graham in Rome

Mr Silvio Berlusconi, the Italian prime minister, is expected to press for an early election even if he survives a parliamentary confidence vote today.

The strategy of the embattled media magnate turned politician was outlined yesterday by Mr Giuliano Ferrara, the government spokesman and minister for parliamentary affairs.

Mr Ferrara said the prime minister had no option but to go to the country if the rightwing coalition was deserted – as has been threatened – by one of its members, the populist Northern League.

The heightening political tension and uncertainty was reflected in financial markets yesterday, with the lira touching a new low of L1,050 against the D-Mark.

Early elections would probably leave Italy with a caretaker government until May, given the minimum 60-days between the dissolution of parliament and an election, plus the subsequent formalities of forming a government.

Mr Umberto Bossi, the League leader who has become Mr Berlusconi's chief adversary, has presented one no-confidence motion in conjunction with the Popular Party (PPI),the main centrist opposition party, for debate today. Another two no-confidence motions have been tabled by leftwing groups.

However, yesterday Mr Ferrara indicated Mr Berlusconi would try to seize the initiative by presenting a confidence motion of his own. The aim of this would be to show that the League had "betrayed" the government at Mr Bossi's bidding.

"If the vote goes against the government in the confidence motion, then there would be no alternative but to seek early elections – and quickly," Mr Ferrara said. By pushing for early elections, Mr Berlusconi believes he would be able to capitalise on his own popularity and discredit the League.

Control of the media will be central to such a plan, and Mr Berlusconi on Monday showed disregard for the normal rules of media access. He obliged state and his own television channels to run a party political broadcast that encouraged popular protest against the League.

Mr Berlusconi is due to open the debate this afternoon, the 1995 budget having been finally approved by both houses of parliament. Unlike a no-confidence vote, a confidence motion can be proposed at any time. This could come at the end of a speech by Mr Berlusconi in which he is likely to offer his resignation if he fails to retain the current majority.

Self interest of allies holds key to Berlusconi fate, Page 2

'Material' reserve on earnings

Intel offers to replace Pentium microchips

By Louise Kehoe in San Francisco

Intel, the world's biggest computer chipmaker, is offering to replace free of charge the flawed Pentium microprocessors that are the "brains" of millions of high performance personal computers.

To cover the cost of the move, which follows thousands of customer complaints over the last month on the Internet global computer network, the US group will take a "material" reserve against earnings in the current quarter.

About 5m Pentium chips have been shipped to date, but Intel said it had no idea how many customers would request replacement. The company's reserve, yet to be determined, will include the cost of new chips and a portion of the cost of inserting them in computers.

The company apologised for its handling of the controversy. The flawed chips can cause computers to produce errors in division calculations.

Intel's share price rose in New York after yesterday's announcement from $57⅞ to $60⅞ at midsession. Analysts said the decision would help to end "hysterical media coverage".

Mr Andrew Grove, Intel's president and chief executive, said: "Our previous policy was to talk with [Pentium PC] users to determine whether their needs required replacement of the processor. There was a resentment to our approach – it appeared that we at Intel were arrogant, we were telling customers what was good for them. Maybe we have been thick-headed about this... but we finally figured it out."

Wide public attention was drawn to the Pentium problem by an announcement from IBM a week ago that it was halting shipments of computers using Pentium chips. IBM said the Pentium could produce an error every 24 days.

Intel, however, maintains that such errors would likely occur only once in every 9bn calculations, or once in every 27,000 years, and would not affect most users. IBM's figures have also been rejected by several other PC manufacturers, including Compaq, the world's largest.

Retail sales of computers using

Continued on Page 14
Lex, Page 14

Microsoft shares fall

Microsoft's share price fell sharply yesterday when the software company announced another delay in the launch of "Windows 95", its new personal computer program. The product may now not be ready until August. It has already been delayed by more than a year.

Report, Page 15

A Grozny resident in front of her home which was destroyed during a Russian rocket attack yesterday. Moscow said it was continuing an offensive against rebel positions near the Chechen capital but admitted it was meeting "stiff resistance". Report, Page 2 AP

Mexican government devalues peso

By Ted Bardacke in Mexico City and Stephen Fidler in London

Mexico's new government yesterday allowed a big devaluation of the peso in the face of mounting outflows of capital, reversing a long-held policy permitting only a gradual depreciation of the currency.

It is the first significant devaluation by Mexico since 1987. The move by President Ernesto Zedillo, who assumed office on December 1, followed 10 months of capital outflows from the country, which intensified again over the past couple of weeks.

Sales of Mexican assets by foreign investors reflected worries about deepening political tensions in the southern state of Chiapas, analysts said. Investors also had concerns about the size of the country's current account deficit, which will amount to some $28bn this year.

Armed rebels mounted an offensive in Chiapas in January, demanding more rights for indigenous peoples and enhanced democracy. A tense stand-off with the military has continued since then. Earlier this week some armed rebels slipped through the military cordon surrounding them, claiming they had occupied 38 of the state's 110 municipalities.

The peso fell yesterday to 3.95 to the dollar, a devaluation of more than 14 per cent on Monday's close. This follows a depreciation of some 10 per cent earlier in the year.

The government announced that the permitted floor value of the peso would drop to 4.0016 to the US dollar, compared to Monday's floor of about 3.47. The permitted daily slide, which amounts to some 4 per cent a year, will be allowed to continue.

The Mexican stock market initially reacted favourably to the move, rising almost 6 per cent.

After an all-night meeting of representatives from government, business and labour, Mr Jaime Serra Puche, finance minister, indicated that political pressure was the main reason behind the devaluation. All other facets of the 1995 economic programme would remain, including

Continued on Page 14
Nerves over deficit and dissidence, Page 5

AT&T wins approval to offer full telephone services in UK

By Alan Cane

AT&T, the largest US telecoms carrier, has been given the go-ahead to offer a full range of telephone services in the UK, a move which will sharply intensify competition in the British telecoms market.

The granting of a public telecommunications operator's licence to AT&T was announced yesterday by Mr Ian Taylor, UK trade and technology minister, who announced a similar licence for Concert, a joint venture between BT and MCI of the US.

The announcement had been widely expected. AT&T made its application in April 1993 and approval in principle was issued in the summer. The UK government's decision to award AT&T a full licence, however, gives the US company an immediate advantage in its struggle with BT for the lion's share of the lucrative transatlantic business traffic.

AT&T will be able to provide domestic, switched voice and data services, private line and, most important, "international simple resale" services to UK customers.

International simple resale – a leased-line service which offers multinational companies cut-price transatlantic networks – is growing rapidly in importance.

AT&T's entry into the market is likely to bring lower telecoms costs for business customers on the transatlantic route where "resellers" – US companies such as WorldCom or ACC – are already undercutting British Telecom and Mercury Communications, the two largest UK telecoms operators.

BT, however, is still waiting for the US Federal Communications Commission to give it approval to operate international simple resale between the US and UK.

It already has partial approval and is hoping that the FCC will move quickly now that the UK has given AT&T the go-ahead.

Concert, based in Washington, aims to provide "one-stop" telecoms services for multinational companies. It has been operating mainly in data services since the US authorities gave partial approval to the BT-MCI alliance in June this year.

Mr David Quinn, AT&T's European marketing director, said the company would be investing in the UK on a scale which reflected its ambition to be a significant force in both the business and residential markets.

He said the intention was not to double up on services already on offer but to build on AT&T's technological strength and experience in the US to offer new services. Next year, he said, these would include frame relay – a high-speed communications method between computer systems, international leased lines and intelligent virtual private networks.

He said the company planned an orderly approach to the UK market. Services would first be provided over existing networks through partnerships with cable companies. In the long term, however, he said AT&T would be prepared to build its own network including the "local loop" between the exchange and the home or office.

CONTENTS

 No 32,555 Week No 51 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

Army meets stiff resistance in Chechnya but seizes villages

Russia holds back from Grozny strike

By John Lloyd in Moscow

The Russian army yesterday continued to pound Chechen positions to the north of the capital of Grozny but was meeting what the Russian interior ministry admitted was "stiff resistance" and was holding back from an assault.

Although protests at home and abroad are mounting, the Russian government continues to show a will to squeeze the breakaway republic's capital, if not yet to take it.

A meeting of ministers, presidential aides and senior parliamentarians chaired by Mr Victor Chernomyrdin, the prime minister, promised further "decisive action" and noted that the army had come closer to Grozny from the north-east and north-west and was preparing to cut the minor roads to the south.

A statement released after the meeting spoke of Chechen forces retreating to the hills, while those which remained used civilians as "human shields". The government information service built on these reports by maintaining that the "city is in panic".

The reports are not wholly confirmed by journalists who remain in the Chechen capital. Reuters' reports say that a "human chain" of many thousands of residents of Grozny and the surrounding villages stretched along the highway to the west in an attempt to end hostilities, while the hospitals continued to function and bread and other supplies were being sold in the market.

But the overwhelming superiority of Russian armour, now being reinforced by marines and other troops, is beginning to tell. While a Russian helicopter was reported shot down by Chechen fire yesterday, the Russian troops claimed that two villages – Pravoberezhnaya and Chervlyonnaya, to the north – were taken in heavy fighting.

Western military analysts in Moscow believe the seizure of Grozny is being delayed until it is emptied and until the surrounding forces have been weakened. While talks were still being urged yesterday – notably by the Chechen Mufti, Mukhammad-Hussein Alsabekov, who was speaking in Moscow – these are now thought all but impossible.

If there is an inhibiting factor on Russia's actions, it is more likely to come from outside its border than from within. The parliament of Ukraine, the largest and most important of the former Soviet states neighbouring Russia, yesterday appealed to Moscow's leaders to stop the fighting, saying "we call on you to do everything possible so that international human rights standards and freedoms are applied to the peoples of the Caucasus".

Only Moslem states – such as Turkey, Saudi Arabia and Jordan – have protested over the intervention. They were warned off yesterday by a brusque statement from the Russian foreign ministry, which said such calls were an interference in Russia's internal policies.

A very Bosnian plight, Page 12

Self-interest of Berlusconi's allies holds key to his fate

By Robert Graham in Rome

Premier Silvio Berlusconi's increasingly desperate appeals for support may reach some receptive ears among Italian television audiences, especially those watching his three Fininvest channels, but they are unlikely to sway deputies in today's debate in parliament on a confidence vote. They will be influenced by self-interest and the perception of Mr Berlusconi's future as a political leader.

The anti-government vote in the chamber of deputies must be assured of 316 votes to win a majority in the 630-seat lower house. The present coalition is made up of Mr Berlusconi's Forza Italia, the populist Northern League of Mr Umberto Bossi, and the neo-fascist MSI/National Alliance. The minor partners are the small right-wing rump of the old Christian Democrats, the Christian Democratic Centre (CCD) and the Radicals of Mr Marco Pannella.

Mr Bossi has decided he can no longer co-habit with Mr Berlusconi and his right-wing allies, and has turned to form a Liberal Democrat axis with opposition parties in the centre. The League's desertion immediately reduces what has been a substantial majority in the chamber of deputies to a minority. In the Senate, where the government has at best enjoyed a majority of one, the majority would disappear even more dramatically.

The extent to which Mr Bossi's defection cuts Mr Berlusconi's parliamentary backing will only become clear with the confidence vote, probably as late as Friday. The League is divided and reportedly as many as 40 in both houses are not prepared to walk away from the coalition. These MPs argue they were elected with the help of Forza Italia votes and that a shift from the coalition would mean embracing a deal with the dominant opposition force on the left, the former communist Party of the Democratic Left (PDS).

Mr Bossi needs the loyalty of a good 60 deputies to demonstrate he still commands the bulk of this northern movement, which is committed to a more federally governed Italy. Yesterday he was indicating he had about 80 deputies and all but a handful of the League senators.

If this is the case, Mr Berlusconi would find himself at the head of a minority government and be forced to resign. Even if he were to scrape by the vote in the lower house, another motion would be brought in the Senate, which the media magnate turned businessman could not survive.

Mr Berlusconi, sensing an inevitable defeat, now appears determined to seize the initiative and is almost certain to introduce his own confidence motion. The premier's tactic is to try to force early elections once he falls.

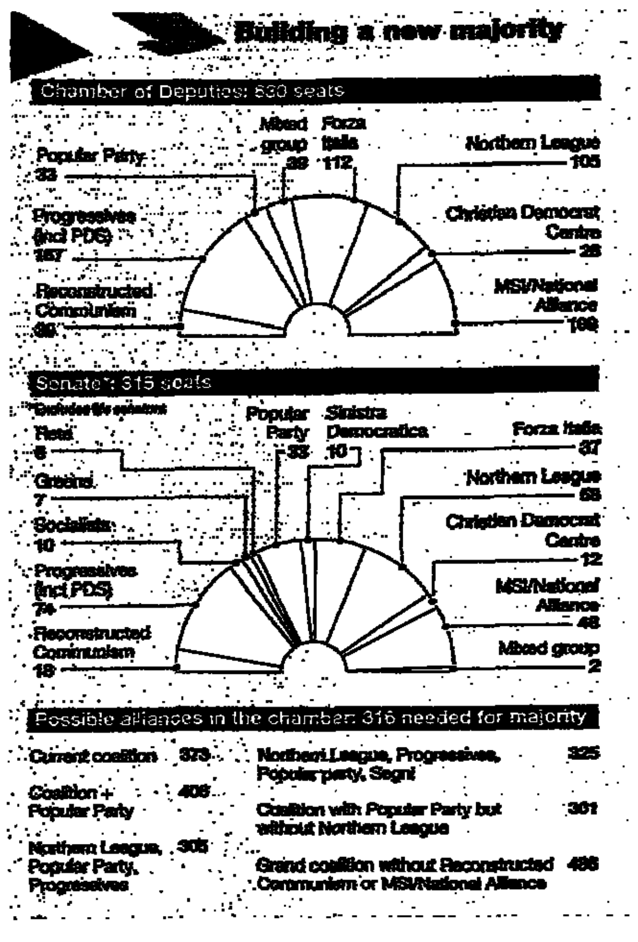
In the current parliament it would be difficult for Mr Berlusconi's opponents to form an alternative government as the majority of the electorate in the March elections voted centre right.

A centre left government could at best muster some 325 seats, insufficient to guarantee a stable legislature.

Equally Mr Berlusconi, without the bulk of the League, would lack the necessary numbers, and the opposition centre parties would be unlikely allies. The coalition and its broadening to the centre would only stand if Mr Berlusconi himself were to step aside – and he is set on clinging to power.

Indeed, the only stable majority would be a broad coalition of all the parties: or all those parties excluding the extremes of Reconstructed Communism on the left and the MSI on the right. However, such an outcome is against the express policy of Mr Berlusconi and his closest allies, who will not easily forego their demand for early elections.

They could even force this conclusion by resigning en masse from parliament.



Impact feared on recovery

Institutional government seen as one way to restore stability and unity, writes Andrew Hill

Up to now, the brawl on Italy's bridge about who is in command has done little to upset work in the engine-room, where the real economy has powered ahead. But industrialists fear this week's no-confidence votes could usher in a new phase of political uncertainty and turmoil on financial markets.

Among the few well known names to speak out publicly has been Mr Carlo De Benedetti, the chairman of Olivetti and a business rival of Prime Minister Silvio Berlusconi. He provoked the wrath of the premier last week with an interview in which he called for the coalition to be replaced by an institutional government. The political uncertainty "risks compromising the industrial recovery which has now taken off," he told La Stampa, the Turin-based newspaper controlled by the Agnelli family.

Other business leaders are privately voicing concern. "We can no longer say that the real economy is divorced from the political turmoil," says an executive at one of Italy's largest quoted companies.

Confindustria, the Italian employers' federation, is maintaining a rosy forecast for next year's economic growth, but the federation is concerned that continuing political uncertainty – in particular the risk that a new government would have to introduce painful supplementary budget measures in early 1995 – could deter companies from investing in new plant and creating new jobs.

Mr Luigi Tessera, managing director of Tepak, a manufacturer of padded envelopes based near Turin, says the economic environment for small companies in his region is now better than it was six months ago. But he admits that local companies are worried about what lies ahead. His solution, however, is to press ahead with investment. "We need to invest to reinforce our business against these moments of uncertainty."

One fear is that the persistent weakness of the lira could trigger a new spiral of inflation. Exporters admit they have reaped the benefit of a weak currency, after its September 1992 devaluation. But even they were not expecting the lira to reach the levels recorded this week: yesterday it touched a record low of L1,050 to the D-Mark, compared with about L988 just before the March elections.

Mr Daniele Vacchi of IMA, a medium-sized family owned Bologna manufacturer of packaging machinery, says: "The weak lira isn't a 360-degree advantage: we are in a high-technology area and have to buy some raw materials, semi-finished goods and electronic components abroad. These goods are increasing in price."

One counterweight to inflation would be a further rise in interest rates, but that would increase pressure on those companies still nursing borrowings from the recession and directly hinder investment.

Entrepreneurs also say Italy's poor image abroad is increasingly bad for business, especially when competing for contracts against competitors from Germany.

The concern now is that in the scramble to form a new coalition or, worse still, in the chaotic run-up to new elections, some of the worthy aims of the Berlusconi government may be sacrificed or postponed. There is a risk, for example, that the ambitious privatisation timetable could suffer delays, further disillusioning international investors.

Business hopes for an institutional government – a non-party government of technocrats – which could calm the frenzied political atmosphere, and unite all in the national interest.

Significantly, Mr Giulio Tremonti, Italy's finance minister, made a point on Monday of stressing that his newly launched white paper on fiscal reform had all-party support. The paper, which proposes simplification of Italy's Byzantine tax system, has been eagerly awaited by individuals as well as small and medium-sized companies, labouring under a heavy bureaucratic burden.

"Fiscal reform is a constitutional reform and therefore needs the participation of the opposition as well," Mr Tremonti said on Monday. However, given the acrimony likely to be generated between government and opposition in the next few days, that could be easier said than done.

Brussels plan on cross-border jobs set to fail

By Robert Taylor, Employment Editor

A European Union draft directive to provide basic employment rights for workers posted by their employers to work in another EU country looks set to fail at a special meeting of EU social affairs ministers called to discuss it in Brussels today.

Ministers appear to have been unable to reach agreement during the past fortnight ago over the controversial directive, which many European employers see as a burden on business.

The Commission wants the directive to set up minimum legal standards for posted workers to prevent them being exploited, through undercutting of local labour market standards.

Mr Michael Portillo, the UK's employment secretary, is likely to draw comfort from the disarray among the member states over the directive. Portugal, Greece and Italy are sceptical of the proposal as many employers fear it would force them to increase pay for seconded workers in member states with higher wages.

"Bar a miracle today, the directive will not get through the Council. It is getting more difficult all the time", a Commission official said yesterday.

However, Mr Padraig Flynn, the EU's social affairs commissioner, will not give up pressing for legislation covering posted workers during the French presidency of the EU, beginning on January 1.

Today's probable outcome will be a setback to Mr Norbert Blum, Germany's labour minister, who had hoped to crown Germany's presidency of the EU with a victory over an issue that has troubled the Commission for years.

But it now seems likely it will be left to member states to decide whether or not to introduce domestic legislation to protect indigenous employers from competition through lower-cost labour used by foreign companies. "Mr Portillo should not crow about this. The EU directive would have been a minimalist measure. Now there is a real danger that some EU states will bring in laws that will undermine the position of posted workers", an official said.

There is already enormous pressure from German construction employers who dislike competition from foreign companies, who pay their workers posted to Germany considerably less and meet lower non-wage labour costs than German rivals. The BDA, Germany's employer federation, has indicated it wants a directive to deal solely with the needs of the sector.

Divisions in the Council centre on how long a worker has to be posted to be covered by the directive. Some ministers want it to apply to all posted workers while others favour a four to six-month period before it applies.

Le Monde moves with the times

Le Monde, one of France's best-known daily newspapers, is to turn itself into a conventional company and bring in substantial outside investment in the latest example of the sector's attempts to stave off losses, writes Andrew Jack in Paris.

The restructuring, which was approved by shareholders earlier this week, is designed to inject FFr220m (£26.15m) in new capital and will overhaul the complex old-fashioned corporate legal structure put in place to preserve the paper's editorial independence.

Le Monde, which has become a French institution since its creation just 50 years ago, celebrated its anniversary on Monday with facsimiles of earlier editions, demonstrating just how little the basic design and logo has altered.

That will all change in January, under a new format introduced as part of the restructuring plan in preparation since autumn 1993. Mrs Anne Chaussebourg, a senior executive, said yesterday the new editorial approach represented "a strong innovation, not a revolution" with greater emphasis on business and international economic stories.

The liberal-leaning paper has generated many enemies in the French establishment over the years, including President François Mitterrand who recently said he no longer read it.

The new plan will see the paper available for sale an hour earlier in Paris. Mrs Chaussebourg said the aim was to boost sales by at least 5 per cent by the end of 1995, by which time *Le Monde* should have broken even before becoming profitable from 1996. This year it made losses of about FFr20m.

Earlier this week, Libération, another Paris-based daily newspaper, announced a recapitalisation of FFr75m.

Spain to ease 'intrusive frontier checks' following complaints by London

Pact defuses Gibraltar drugs trade row

By Jimmy Burns and David Marsh

Britain and Spain yesterday defused a diplomatic row over Gibraltar by agreeing to develop more formal arrangements for tackling drugs trafficking and other illicit trade between the UK colony and the Spanish mainland.

A joint statement issued after talks between Mr Douglas Hurd, the UK foreign secretary, and Mr Javier Solana, his Spanish counterpart, in London, said that both sides had recognised there was "a problem of illegal trafficking in the Gibraltar area". Both ministers agreed to establish a "mechanism", which should include Gibraltarian officials, to "improve consultation and co-operation" between all three sides.

Mr Hurd said the authority would consists of "two flags [Spain and the UK] and three voices [Spanish, British, and Gibraltarian]"; in other words, that the move would not impinge on either country's sovereignty claim over the colony.

However, Spanish officials feel the proposal is a concession by the UK in that it potentially allows Madrid a greater say in Gibraltarian affairs.

Spanish concerns that the UK was not doing enough to prevent Gibraltar becoming a big drugs smuggling and money laundering centre led Madrid earlier this month to step up border controls.

The move fuelled resentment within Gibraltar and drew a diplomatic protest from the UK over what London claimed were "intrusive" checks by Spanish police.

Yesterday Spain agreed to lift secondary checks at the Gibraltar border to pave the way for greater diplomatic co-operation with the UK within the wider context of the EU.

Mr Solana, in an interview, hailed the agreement on the illicit trade as a breakthrough in talks which underlined points of common interest on EU matters but which otherwise made little headway on long-standing differences over sovereignty in Gibraltar.

"The Gibraltarian economy has to be put on a more healthy footing. You cannot have an economy which is not sound," he said.

Mr Hurd said separately: "I made clear to Mr Solana that intrusive frontier checks were not welcome... and stressed the need to build up confidence."

According to officials, both sides agreed, at least for the foreseeable future, to disagree on the issue of sovereignty rather than risk a confrontation with the Gibraltarian government.

Mr Joe Bossano, Gibraltar's chief minister, has lashed out recently at both London and Madrid whom he has accused of approving a "dirty tricks" campaign to destabilise his government.

But yesterday Mr Hurd appeared to have appeased Mr Bossano by reiterating the UK commitment to a clause in Gibraltar's 1969 constitution. This guarantees that the UK will not cede the colony to Spain against the wishes of the majority of the population.

Last night the Gibraltarian government issued a conciliatory statement of its "desire to work in close co-operation" with the UK and "in harmony with its neighbour".

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE: Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK: Financial Times (Scandinavia) Ltd. Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

EUROPEAN NEWS DIGEST

Madrid rocked by jailing

Prime minister Felipe González's government was embarrassed yesterday by the decision of a senior investigative magistrate, to imprison a former top official of the interior ministry on counts of attempted murder, kidnapping and misuse of public funds. The development fuelled market nervousness in Spain where attention is already centred on investigations of Mr Mario Conde, dismissed by the Bank of Spain as chairman of Banesto a year ago. Mr Condé was questioned for the second consecutive day yesterday over alleged fraud in connection with the collapse of Banesto.

Judge Baltasar Garzón jailed Mr Julián Sancristóbal, director general of state security between 1984 and 1986, in connection with the activities of a group called GAL, Anti-terrorist Liberation Group, that claimed 23 fatal victims in a shooting and bombing campaign against suspected ETA Basque separatists in south west France 10 years ago. Included in the indictment are the former head of the anti-terrorist unit in the Basque city of Bilbao, who was jailed along with Mr Sancristóbal, who was arrested yesterday at Barcelona airport when he was allegedly trying to leave Spain. *Tom Burns, Madrid*

UK alone over EU fisheries

The UK faces being outvoted by its European partners when EU fisheries ministers reconvene in Brussels tomorrow after two days of talks failed to agree terms on Spain's full integration into the Union's common fisheries policy. The UK held out yesterday against limited Spanish access to its western coastal waters. But Madrid has said it will block enlargement, to bring Austria, Sweden and Finland into the EU on January 1, unless it gets satisfaction. Senior German officials said they would put the dispute to a vote on Thursday rather than risk jeopardising EU expansion, leaving Britain facing isolation.

The German presidency of the EU has proposed a compromise on the sensitive "Irish Box" which would let 40 Spanish trawlers inside. This is roughly the same proportion of vessels in these waters as fleets from other member states send into the Irish Box, and therefore, in the EU majority view, treats Spain equally. *David Gardner, Brussels*

Chirac homes scheme warning

Mr Hervé de Charette, France's housing minister, yesterday warned Mr Jacques Chirac (left), mayor of Paris and presidential candidate, that his call for compulsory requisitioning of vacant houses and flats for the capital's homeless would deter property investment. Instead he proposed to Prime Minister Edouard Balladur that the government pay special premiums to get landlords to let vacant properties and to housing associations to help the poor with rent. To dramatise the plight of the homeless at Christmas, the venerable Abbé Pierre, long-time champion of France's homeless, last weekend led a squat of a company-owned property in a smart Paris district, a move promptly exploited by Mr Chirac and his presidential rival, Mr Balladur. *David Buchan, Paris*

Danes back shipyard complaint

The Danish government is to back a complaint to the European Court by Danish shipbuilders against German subsidies to four shipyards in the former East Germany. The Danish shipyards claim Germany and the EU Commission have exceeded their authority when awarding subsidies to the shipyards. Bonn was authorised by the EU to pay re-structuring subsidies of DM6.2bn ($3.9bn) on condition that the yards' capacity was reduced. The Danes say the shipyards' capacity will be substantially increased. *Hilary Barnes, Copenhagen*

Fewer Bank of France branches

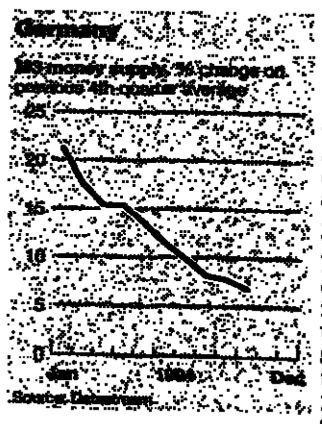
The Bank of France should halve its number of regional branches and be more efficient in making notes and coins, according to reports by McKinsey and two other outside consultants commissioned by the French central bank itself. The bank's board commissioned the studies on its future over the next six to ten years, in the light of its new independence from the government over monetary policy and the prospect of itself become a regional branch of the European Central Bank under the Maastricht treaty. With 16,500 staff, the bank employs more than other central banks because it not only prints money and runs the payments clearing system but also has 176 regional branches offering management advice and some private banking facilities. *David Buchan, Paris*

German rail sale opposition

The Treuhand will today meet in Berlin to stem growing opposition to the sale of Deutsche Waggonbau (DWA), the east German manufacturer of rolling stock. DWA is being sold to Advent International, the US-based venture capital group. The meeting follows sharp criticism from Mr Kurt Biedenkopf, prime minister of Saxony, who yesterday said he would resist any plans by the Treuhand to close one of the plants in his state. *Judy Dempsey, Berlin*

ECONOMIC WATCH

German money growth slows



Germany's money supply grew more slowly than expected in November, bringing it to the top of the Bundesbank's target range for this year. M3 grew at a seasonally adjusted and annualised rate of 6 per cent in the month after 6.8 per cent in October and 7.8 per cent in September. The target range for 1994 is between 4 per cent and 6 per cent, a level the central bank is expected to leave unchanged, or alter only slightly, when it sets the 1995 target tomorrow. Earlier this year, M3 was growing at rates of between 10 and 20 per cent, before the bank cut interest rates to encourage investors to move funds to longer term investments outside the M3 definition.

Economists had expected the November figure to be just below 6.5 per cent. However, the recent introduction of money market funds (not in M3) for German investors distorted the picture, noted UBS in Frankfurt. "Without them, M3 would still be well above target," it said. The Bundesbank also said M3 growth had eased because of high monetary capital formation, with three times as much money moving to longer term investments as in November, 1993. *Andrew Fisher, Frankfurt*

■ French consumer purchases of manufactured goods rose by 1.7 per cent in November after a 2.5 per cent drop in October, the economy ministry said yesterday, claiming that this showed recovery was well established. Durable goods buying was particularly strong, with a 4.9 per cent increase last month. At the same time, Insee, the official statistics agency, produced revised figures underlining the pause in the economy earlier in the autumn. It now estimates that manufacturing output fell in October by 0.5 per cent, after having already fallen by 0.4 per cent in September. *David Buchan, Paris*

هكذا من الاصل

Australian brush-off for cheap Russian wool sales

By Nikki Tait in Sydney

Wool International, the Australian wool sales organisation, said yesterday it was unperturbed by the recent surge in wool sales by Russia, notably to China. However, the organisation said some large European textile companies, such as Benetton of Italy, had acquired supplies from Russia, and expressed hope that "they don't make a habit of this".

The organisation, whose primary function has been to handle the sale of Australia's large wool stockpile, said it became aware of more Russian wool being used in China last September, when a large Australian trade delegation went to talk to Chinese buyers.

Wool International said some Chinese customers claimed the Russian wool was available at about one third the price of Australian supplies. However, WI maintains the Russian wool is fairly low quality, greasy wool, and requires additional processing. It also believes that the surge in supplies will be short-lived.

WI's relaxed stance was backed up by the Australian Bureau of Agriculture and Resource Economics, the government-owned forecasting agency, yesterday. In its quarterly commodities report, ABARE said the sharp rise in wool prices this year and the purchase of lower-quality Russian wool by China in the September quarter were likely to have contributed to reduced activity by the Chinese at Australian auctions.

"Access to Russian wool is expected to be short-lived...with Russian stocks estimated to have fallen to around 10,000-15,000 tonnes. This and the current low level of stocks in China are expected to encourage Chinese wool buyers for the remainder of the season," it said.

Australian sheep account for about 30 per cent of the world's wool production, and the commodity represents one of the country's largest export categories. Woolgrowers faced unfavourable conditions in the early 1990s, but the recent surge in wool prices has surpassed expectations. Although prices have been volatile in the most recent quarter, ABARE forecast yesterday that the eastern wool market indicator should average 790 cents/kg clean in 1994-5, compared with 547c/kg in the previous 12 months.

One reason for the lack of serious concern about the Russian wool supplies is that Australia's wool clip is about eight times the size of Russia's.

The ABARE report said Australian rural exports would fall by 10.4 per cent in 1994-5, as a result of the severe east coast drought which badly hit winter crop production. The agency said yesterday the fall in volume would be only partly offset in value terms by higher prices for some rural commodities, notably wool. The bureau predicted the value of rural exports would dip by around 5.5 per cent, to A$18bn (US$13.9bn) for the 1994-5 financial year.

This is the first fall in value terms for four years. Wheat exports are likely to halve in value and beef exports could be down by 11 per cent. Sugar exports, however, are predicted to rise strongly while wool exports could be up by one-fifth.

On the minerals front, the bureau is looking for a 2 per cent rise overall, to A$30.4bn. This would leave the total value of Australian commodity exports, which make up the lion's share of total exports, at around A$48.4bn for the year, compared with A$48.8bn in 1993-4.

German carmaker to build Swatchmobile in low-wage, flexible Lorraine

Row as Mercedes picks France

By Christopher Parkes in Frankfurt and David Buchan in Paris

Germany's Mercedes-Benz and Swiss watch group SMH are to go ahead with plans to build a DM750m ($503m) car factory in France despite political and trade union protests.

Construction will start next autumn, and production of the micro-compact two-seater model – dubbed the Swatchmobile – will start in late 1997 in preparation for a pan-European launch in early 1998, Mercedes said yesterday.

The city runabout, priced at "well under DM20,000", will be marketed by about 90 main Mercedes dealers and in department stores, the Daimler-Benz subsidiary said.

As revealed by angry German trade union leaders last week, the assembly plant is to be built in Hambach, around 5km from the town of Sarreguemines on the French-German border. The factory will be able to make up to 200,000 cars a year, and employ up to 1,900.

The decision was confirmed yesterday by the Daimler-Benz board following a fevered debate over Daimler's alleged neglect of its responsibility to build the ground-breaking new model in Germany.

The argument effectively ended on Monday night after Mr Edzard Reuter, group chairman, and Mr Nicholas Hayek, head of SMH, explained the rationale for the decision to assemble in France to Chancellor Helmut Kohl.

Mr Reuter had earlier been pressed to reconsider by Mr Erwin Teufel, prime minister of Baden-Württemberg, Daimler's home state. He had also received a protest letter from Mr Wolfgang Schäuble, parliamentary leader of Mr Kohl's Christian Democratic Union, the senior party in the ruling Bonn coalition which is governing with a majority of only 10.

According to Daimler, MCC, the joint-venture company set up to run the project, in which the German group has a 51 per cent stake, had examined more than 70 possible sites. Hambach was selected because it was located in the centre of the main market for the Swatchmobile, and because of its competitive wage costs and highly flexible working times and conditions.

Other considerations included ideal road and rail links: Hambach is close to the A4 trunk road from Paris to Strasbourg which joins the German autobahn network in Saarbrücken.

However, the decisive factors were most likely to have been payroll bills – unit labour costs in France are about 40 per cent lower than in Germany, according to the VDA automotive industry association – and more co-operative unions.

Although details have not yet been published, the lean assembly procedures for the Swatchmobile are expected to demand maximum flexibility from the workforce in terms of working times and practices.

Reuter: protest letter from CDU parliamentary leader

The cars will be assembled mainly from complete modules and large components supplied from outside the Hambach site, where only about 20 per cent of the necessary parts are to be made. As a result of the demand for bought-in modules, Daimler claims, component suppliers – mostly in Germany – will need to hire about 7,000 additional workers. "Strategically important" parts would be made by Mercedes and SMH.

The president of the Sarreguemines district, Mr Hubert Roth, said he hoped the Hambach site would become "a pole of attraction" for the car industry, noting that Mercedes had taken an option on a further 14 hectares, in addition to the 50 hectares on which it will build the car plant.

Mr Gérard Longuet, the former French industry minister who still heads the Lorraine regional council, said the investment fitted with Lorraine's cross-frontier development strategy. It would create more than 2,000 jobs directly and another 8,500 indirectly. In Paris, officials said France would give aid up to the permitted ceiling of 17 per cent of the DM750m investment, but this would have to be cleared by the European Commission in Brussels.

Billion dollar patents windfall for Glaxo

By Daniel Green

Glaxo, the UK drugs company, could earn several billion dollars in extra revenues as a result of changes in US patent laws.

The change in patent expiry arises from Gatt provisions which call call for a harmonisation of patent laws. In the US, this means replacing the patent protection term of 17 years from the date the patent was granted with a 20-year protection period from the date the patent was filed.

The change in the rules appears to add 18 months to a US patent protecting Glaxo's ulcer treatment Zantac, the world's best selling drug. Zantac has annual sales in the US of about $2bn and several companies, most notably Switzerland's Ciba, have been preparing to launch rivals when the patent expires in December 1995. Zantac's patent was granted 18 months after filing.

Several drugs companies with products facing US patent expiry over the next few years might also benefit. Bristol Myers Squibb of the US might be able to extend the patent protection on its top drug Capoten by an extra six months, potentially worth almost $1bn in revenues.

The rule change implies that any product for which a patent was granted less than three years after filing should have its patent protection extended, said Mr Robin Nott, an intellectual property consultant with international law firm Baker and McKenzie. He said that the law takes effect from June 1995 and applies retrospectively. "It could even appear that a patent expires and then revives," he said.

If more than three years passed between patent filing and granting, the expiry patent protection would remain unchanged, he said.

Bristol Myers Squibb said it was still studying the impact of the rule change on all its products. Its best-seller Capoten, a heart drug, loses its patent protection in August 1995. But the company confirmed that patent granting took place two and a half years after filing, implying that patent protection could be extended by another six months.

UK drug company, Wellcome, said that its best seller, anti-viral Retrovir, whose US patent expires in 1997, would not be affected because more than three years passed between patent filing and granting.

Manufacturers that had planned to launch rival products once a patent had expired would be able to continue with the planned launched of their products, according to the new rules. However, the patent holder might be able to claim appropriate compensation payments.

Americas free trade area easier said than done

By Canute James in Kingston

Following the bold intentions for a Free Trade Area of the Americas agreed at the Summit of the Americas, governments in the hemisphere are now facing up to the practical difficulties of creating such an integrated trade area by 2005.

Most central and south American governments believe they must either integrate, or be left behind. But wide disparities in regional economies mean some are better prepared than others. "The countries of the hemisphere are ready to be part of the wider free trade area," says Mr Ricardo Hausmann, chief economist of the Inter-American Development Bank. "The region's economies have stabilised and there is fiscal discipline. The economies are growing at an average of 3.5 per cent for the past four years, and investment levels are rising."

Trade in the Americas grew by 5 per cent per year between 1990 and 1994 despite a global recession, Mr Hausmann said. Countries in the region are trading more among themselves, and reached a value of $28bn last year from $15.7bn in 1990. "This will exceed South American trade with the US this year because policies which previously discouraged trade are now encouraging it. These policies include trade liberalisation and the integration of markets."

Behind these generalities, however, are many disparities between the region's economies. There is already a concern that, even with extensive changes in domestic economic policies, the smaller countries could suffer severe dislocation in the adjustments they will have to make, before they begin gain from increased trade flows.

"We agree that there is a need for economic liberalisation, and that the rising tide of economic improvement will lift all the boats," said Mr Byron Blake, assistant secretary general of the Caribbean Community. "But some small boats which are not well balanced will be capsized. This is the danger which faces many small economies in the hemisphere."

One problem is how to integrate – through linking existing trade blocs or via bilateral negotiations, said Mr Cesar Gaviria, secretary general of the Organisation of American States and a former president of Colombia.

"The changes which have taken place in the Americas in recent years mean that the pieces of the puzzle of a hemispheric free trade area are in place," he says. "But as in any assembly line, the pieces have to be put together to work properly. We cannot over-exaggerate the difficulties," Mr Gaviria said.

Stitching together the hemisphere's several trading groups is unlikely to produce the seamless whole promised by leaders at the Miami summit two weeks ago. The regional trade blocs are at different stages of development. The Andean Pact countries, Bolivia, Colombia, Ecuador, Peru and Venezuela, for example, need to update their trading structure, says Mr Daniel Mazuera, Colombia's foreign trade minister.

Mr Gaviria argues that some countries will need time to implement trade liberalisation policies, while the laggards must be given help so they can catch up.

WORLD TRADE NEWS DIGEST

Israel 'can do better' says Gatt

Israel has made big strides in liberalising its trade regime over the past decade but needs to do much more to stimulate competition and improve the flexibility of its economy, according to the General Agreement on Tariffs and Trade. A Gatt secretariat report says the peace and economic agreements with the Palestine Liberation Organisation should help stimulate trade, investment and tourism. However, the main economic gains for Israel will come indirectly from a relaxation and eventual end to the Arab boycott and reduced political risks of investment. Israel's trade ministry, said there had been a partial lifting of the secondary and tertiary boycott but no moves to lift the direct boycott. The Arab boycott may have cost Israel as much as $40bn in lost trade and investment. Though trade with third countries is expanding Israel still does most of its trade on preferential terms with the US and the EU. *Frances Williams, Geneva*

Greece in new Gazprom deal

Greece has signed a revised agreement with Gazprom, the Russian state gas supplier, to import natural gas from 1996 through a pipeline from Bulgaria. The new accord also provides for Prometheus, a joint venture between Gazprom of Russia and Greece's Kopelouzos group, to build a 400MW coal-fired power station in northern Greece as a turnkey project for DEH, Greece's state power company, and supply equipment for two hydro-electric plants under construction in central Greece. Under the previous agreement, Prometheus was to build a 250MW gas-fired power station in north-eastern Greece on a build-own-operate basis. However, the socialist government has abandoned plans for private power generation in Greece.

Gazprom is to supply at least 500m cubic metres of gas yearly through a 550km pipeline from the Bulgarian border to Athens. The pipeline, financed mainly by the European Union will be completed early next year at a cost of $1.4bn. But construction of gas distribution networks to serve Athens and four other Greek cities has been delayed by administrative and financial problems. *Kerin Hope, Athens*

Koreas renew business links

South Korea's Ssangyong Group is to import cement from North Korea, the first direct North-South deal since Seoul lifted a two-year ban on business contacts. Ssangyong said agreement was reached between the group's vice-chairman Lee Chou-bom and North Korean officials during a trip to the communist North to discuss economic co-operation.

Meanwhile South Korea has allowed Samsung Aerospace and Korea Bell Helicopter to assemble helicopters for civilian use using foreign technology. Samsung plans to assemble helicopters in a link-up with Eurocopter France. *Reuter, Seoul*

Japanese budget to aim for austerity

By William Dawkins in Tokyo

Japan's finance ministry yesterday signalled a shift from an expansionary to a neutral fiscal policy in 1995 by proposing the first fall in budget outlays in 40 years.

The ministry's draft budget, to be submitted to parliament next month, calls for a 2.9 per cent decline to Y70,891bn (£454bn) in overall outlays for the tax year starting next April. The decline is, however, due to a fall in debt-servicing charges caused by an accounting change.

General spending, a clearer indicator of the government's fiscal stance, is to rise by 3.1 per cent to Y42,142bn. Economists in Tokyo estimate this to be a smaller underlying increase than the current year after adjusting for fiscal pump-priming packages, not included in the initial budget, and spending carried over from earlier years.

The proposed austerity reflected the government's "unhealthy" fiscal position, said Mr Masayoshi Takemura, the finance minister.

Social security payments, representing the largest share of general spending, are planned to rise by 3.1 per cent to Y13,892bn, reflecting the growing number of elderly and a small rise in unemployment. Public works are set to rise by 4 per cent to Y9,240bn, a slight slowdown from the last budget's 4.4 per cent growth.

Defence spending is to be squeezed hard, up by a mere 0.86 per cent to Y4,724bn, the lowest rise for 35 years, and a reflection of the ruling Liberal Democratic party's need to accommodate its Socialist coalition partners. Japan, the world's largest aid donor, also plans to follow other industrialised countries' example in curbing the growth in its foreign aid budget, up by 3.2 per cent to Y1,098bn, the lowest rise ever.

The austerity of this budget is a consequence of the pressure on government revenues from the income tax cuts agreed earlier this year and the weakness of the economic recovery. Tax revenues next year are forecast to rise by a mere Y66bn to Y53,731bn.

In line with its traditional aversion to increasing the government's debts, the ministry plans to reduce the amount of bonds it plans to issue next year by Y1,045bn to Y12,598bn, representing 17.7 per cent of government revenues, down one percentage point from the current 12 months.

Most of the total, Y9,750bn, will be construction bonds, so called because they are used to fund public works and are acceptable to the ministry on the grounds that they increase Japan's assets.

■ The Japanese government has approved plans for telephone rate increases by Nippon Telegraph and Telephone, the country's partially privatised telecommunications operator and the largest company in the world by market capitalisation, writes Emiko Terazono in Tokyo.

The increases in monthly basic subscriber fees and directory assistance charges, which will be implemented next February, are the first in 18 years. The move comes after strong lobbying by NTT, as increases in public service charges have been a sensitive issue for a government faced with a slow economic recovery.

Last March, the company was forced to abandon its original plan to raise its subscription fees as the government decided to freeze all utilities and public service charges to preserve consumer confidence.

The rate increase, which will raise basic subscriber fees by 16.4 per cent and double the charge for directory assistance for subscribers using the service more than twice a month, follows last week's approval by the authorities.

BUDGET OUTLAYS

	1994 Fiscal year to April 1995	1995 Draft for fiscal year to April 1996
Total	Y73,081.7bn (up 1.0% on previous year)	Y70,987.1bn (down 2.9%)
National debt service	Y14,360.2bn (down 7.0%)	Y13,221.3bn (down 7.9%)
Tax grants to local authorities/governments	Y12,757.8bn (down 18.3%)	Y13,215.4bn (up 3.6%)
General expenditures	Y40,854.8bn (up 2.3%)	Y42,141.7bn (up 3.1%)

Source: Ministry of Finance

Paris body says rate adjustments must track the speed of economic growth

OECD warning on interest rates

By Gillian Tett in Paris

Interest rates will need to rise in most countries in the industrialised world over the next few years, as economic growth spreads, the OECD said yesterday.

However, rates are unlikely to rise as high as they have in previous economic upturns, and inflation across most of the OECD area is likely to remain subdued, the OECD said in its latest half yearly outlook.

But the Paris-based body issued a note of warning about the US economy. In spite of the recent rise in US interest rates it remained unclear whether this monetary tightening so far was sufficient to prevent inflationary pressures from souring the recovery, the OECD said.

With growth now spreading to all regions of the industrialised world, the OECD revised upwards its forecast for the expansion in gross domestic product for the second time this year.

The 25 OECD economies are now expected to grow on average by 2.8 per cent this year, and by 3 per cent next year. The OECD's last half-yearly report forecast growth of only 2.6 per cent this year.

The US remains at the forefront of this surge, though expansion should slow sharply in the next two years.

However, Canada and the UK are forecast to see the second highest rate of growth of the seven largest OECD countries next year, with GDP expected to expand by 4.2 and 3.4 per cent respectively.

Continental Europe is also expected to see accelerating rates of growth next year, although the growth rate in Germany is not expected to rise above 3 per cent until 1996.

Meanwhile, Ireland is expected to see the fastest growth of any OECD country, with 5 per cent growth forecast this year and next.

Inflation is expected to remain well below the growth rate in most regions. Excluding Turkey, which has an unusually high inflation rate, average annual inflation in the OECD countries is expected to be only 2.3 per cent next year. But in spite of this optimistic outlook, the OECD warns that accelerating growth means that governments must soon raise interest rates in most countries.

> It remains unclear whether US rate rises have been sufficient to prevent the economy from overheating

The most challenging situation currently exists in the US, where strong growth over the last four years is estimated to have eroded all the spare capacity.

Although the US government has already raised interest rates, the report notes that it "remains unclear" whether they have been sufficient to prevent the economy from overheating in the coming years and sliding back into recession.

The OECD forecasts that short-term interest rates in the US will rise to 6.7 per cent by the start of 1996, and 6.9 per cent in 1996. Although this implies that the Federal Reserve will tighten policy quite rapidly next year, Mr Kumiharu Shigehara, chief economist at the OECD, yesterday pointed out that this rise was still likely to leave rates well below their peaks in previous upturns.

In the UK, Australia and New Zealand, the OECD argues that steady recent growth has created a "case for continuing with gradual monetary tightening".

In continental Europe, German interest rates are expected to remain unchanged in the near future, although the OECD forecasts that short-term interest rates will rise to 5.6 per cent in 1996.

In Ireland, the Nordic countries and some other European countries interest rates may also need to be raised soon if conditions deteriorate, the report says.

The only exception to this upward trend in interest rates is Japan.

Although the OECD predicts that domestic demand will grow faster in Japan than most other regions in the next year, the "appropriate time for moving rates to an upward path appears to be some way off", it says.

One country where short-term interest rates are expected to remain particularly high over the next two years, however, is Italy. As a result of the country's soaring budget deficit, rates are expected to rise to 11.8 per cent next year.

"In the absence of further measures to cut the deficit, the process of further interest rate convergence with partner countries in Europe is likely to remain slow," the OECD said.

The OECD Economic Outlook, December 1994. OECD, 2, Rue André Pascal, 75775, Paris. Subscription FF250, $46, DM90.

Outlook for the medium-term

Summary of projections
Seasonally adjusted at annual rates

	1994	1995	1996
Real GDP (% change)			
US	3.9	3.1	2.0
Japan	1.0	2.5	3.4
Germany	2.8	2.8	3.5
OECD Europe	2.5	3.0	3.2
Total OECD	2.8	3.0	2.9
World trade (% change)[1]	8.9	9.2	7.5
Inflation (% change)[2]			
US	2.0	2.5	3.2
Japan	0.5	0.6	0.8
Germany	2.3	2.0	2.2
OECD Europe[3]	2.5	2.5	2.6
Total OECD[3]	2.1	2.3	2.5
Unemployment (% of labour force)			
US	6.1	5.6	5.5
Japan	2.9	3.0	2.9
Germany	9.6	9.1	8.6
OECD Europe	11.6	11.3	10.9
Total OECD	8.2	7.9	7.7
Current balance (% of GDP)			
US	-2.3	-2.4	-2.3
Japan	3.0	2.8	2.6
Germany	-1.2	-0.6	-0.5
OECD Europe	0.5	0.8	1.0
Total OECD	-0.2	-0.1	0.0
Short-term interest rates[4]			
US	4.2	6.5	6.7
Japan	2.2	2.6	2.9
Germany	5.3	5.0	6.6
Major 4 European countries[5]	8.5	8.3	7.9

1 Arithmetic average of growth rates of world import and export volumes.
2 GDP deflator.
3 Excluding Turkey.
4 US 3-month Treasury bills; Japan 3-6 month CD; Germany, France, Italy, UK 3-month interbank rates.
5 Unweighted average of the growth rates of world import volumes and world export volumes.

Japan's top industrial policy official to quit

By William Dawkins

The most senior bureaucrat in Japan's Ministry of International Trade and Industry is to resign, government officials announced last night.

Mr Hideaki Kumano, who as Miti vice-minister is Japan's top industrial policy official and one of its top trade negotiators, is to step down after the end of the year, they said.

No reason was given, but this appears to be the climax of a more than year-long power struggle between the bureaucracy and Japan's politicians, in which Mr Kumano is the most senior victim so far.

Since the Liberal Democratic party returned to power six months ago, after a humiliating year in opposition, it has been seeking to reassert its authority over the public administration. Mr Kumano's political master, Mr Ryutaro Hashimoto, Miti minister, also happens to be a rising and reputedly ruthless star in the LDP.

Miti has been at the centre of this battle, because of the influence it exercises as controller of more licences and permits (1,769 at the latest government count) than any other ministry.

Mr Kumano's resignation had been rumoured since the LDP's return in June, when several ministers in the incoming government called for a purge of senior bureaucrats who had used the political upheavals of the past year to boost the public administration's power. The government issued a warning at that time, rather than risk an open dispute with the bureaucracy.

Mr Kumano is believed to have annoyed the party by failing, during the LDP's period out of power, to stop the forced resignation of Mr Masahisa Naito, an LDP sympathiser, as head of Miti's powerful industrial policy bureau.

Mr Naito was ousted last December by former Miti minister Hiroshi Kumagai, now a member of the opposition New Frontier party and a close ally of Mr Ichiro Ozawa, NFP strategic mastermind. Mr Naito was alleged to have promoted a young Miti official, to improve his chances of winning a parliamentary seat for the LDP.

Early this year, Mr Kumano had to make a public apology for a Miti document encouraging business organisations to comment favourably on an economic stimulus package issued by the government of the time. The document, criticised as an example of covert bureaucratic influence, may have further linked him to the present opposition in the mind of the LDP's Mr Hashimoto.

'Output gap' leads to inflation alert

Gillian Tett reports on OECD findings that could fuel the debate on the timing of interest rate rises

The strong growth in the US has now eroded all of the spare capacity in the US economy, suggesting that inflationary pressures may soon intensify, the OECD outlook said yesterday.

Germany also has a relatively low level of spare capacity in its economy, even though recovery has started only recently there. However, the UK has more spare capacity than any other of the six largest industrialised economy, closely followed by France.

These findings are likely to fuel the debate about the timing of interest rate rises in OECD countries and the significance of the so-called "output gap", not least because the OECD yesterday announced reforms in its calculations of this gap.

In recent years, western governments have attached growing significance to the concept of an output gap, since it has been assumed that an erosion of the spare capacity will lead to higher inflation. The output gap is usually defined as the difference between the actual growth rate in an economy and its theoretical potential growth rate if all capacity were used.

However, economists and governments have remained sharply divided over the correct way to measure the output gap. Although the Bank of England, for example, uses its own calculations of the UK output gap to help determine the timing of interest rate rises, it refuses to publish figures on this.

In the past, the OECD's own calculations of the output gap have relied on a mixture of historical statistical analysis, and judgements about broader trends in the economy, such as changes in labour market flexibility.

However the OECD is now relying on a more complicated modelling technique that seeks to estimate the total productive capacity in an economy, compared with its actual growth.

The OECD admits that the concept remains extremely slippery. Nevertheless, its finding that the US economy has now eroded all of its spare capacity may add to pressure for a further rise in US interest rates.

"There is widespread agreement that full employment has been reached (in the US)," the OECD said. It forecasts that inflation in the US will rise to more than 3 per cent in the next 18 months. Conversely, the surprising conclusion that the UK now has more spare capacity than most other European countries not only highlights the depth of the recent UK recession – but may also fuel complaints from some economists that further rises in UK interest rates are unnecessary.

France is also estimated to have a relatively large output gap, which again may indicate the depth of its recent recession.

Meanwhile the output gap in Japan, which is only now emerging from recession, is predicted to remain little changed over the next two years, highlighting the fact that inflationary pressures are likely to remain subdued, creating little need for interest rate rises.

The OECD warned that Italy, in particular, was one country that needed to address the problem of the budget deficit, although the Italian government had introduced some reforms.

Output gaps

Deviations of actual GDP from potential GDP as percentage of potential GDP

	US	Japan	Germany	France	Italy	UK	Canada
1986	-0.4	-3.6	-1.3	-2.2	0.1	0.6	1.0
1987	0.2	-3.6	-1.8	-2.3	1.5	2.8	2.6
1988	1.7	-1.2	-0.5	-0.5	2.9	5.0	4.6
1989	2.2	0.1	0.2	1.1	4.0	4.6	4.0
1990	1.4	1.8	2.3	1.2	3.7	2.2	0.8
1991	-1.4	3.1	3.8	-0.2	2.6	-2.5	-3.5
1992	-1.3	2.0	2.5	-1.0	0.8	-5.1	-4.8
1993	-0.4	-0.2	-1.2	-3.7	-2.1	-5.2	-4.4
1994	1.0	-2.3	-1.2	-3.5	-2.0	-3.9	-2.9
1995	1.5	-2.8	-1.1	-2.6	-1.4	-2.9	-1.7
1996	1.0	-2.5	-0.5	-1.6	-0.7	-2.3	-0.8

N Korea holds on to crash pilot

By John Burton, Seoul Correspondent

North Korea yesterday refused to release a captured US army pilot until it has completed an investigation into the crash of his helicopter over its territory on Saturday.

Pyongyang is expected to repatriate the pilot if it is satisfied that the incident was caused by a navigational error, as claimed by the US. This was made clear by a North Korean diplomat in a statement to the South Korean news agency Yonhap.

Washington had indicated that if North Korea refused to release the pilot and the body of his co-pilot, who was killed in the helicopter crash, such intransigence could jeopardise the recent nuclear agreement reached with the US.

North Korea has so far refrained from exploiting the incident for propaganda purposes.

But Pyongyang has now held the pilot longer than it kept US service personnel when it shot down a US helicopter in 1977.

The bodies of the three servicemen who were killed in that incident, along with the one survivor, were returned within three days.

Meanwhile, the US military has imposed fresh restrictions on helicopter flights along the demilitarised zone which separates the two Koreas, to prevent similar incidents occurring.

ANC members back leaders and policy

By Mark Suzman in Bloemfontein

South Africa's President Nelson Mandela, his first deputy Mr Thabo Mbeki, and African National Congress secretary-general Cyril Ramaphosa were yesterday elected unopposed to the ANC's top three offices on the second-last day of its triennial conference. Delegates affirmed support for the government, especially in economic policy.

In elections for the party's six top offices, Mr Mandela was re-elected party president. Mr Mbeki's position as heir-apparent was confirmed when he became deputy president. Mr Ramaphosa kept his post; his former deputy, Mr Jacob Zuma, took over from Mr Mbeki as national chairperson.

> Delegates acknowledged grassroots frustration at slow delivery on the ANC's election promises

Ms Cheryl Carolus, ANC policy head, became deputy secretary-general and the Rev. Arnold Stofile, the party's parliamentary chief whip, was elected treasurer-general.

The election of Mr Zuma, the party leader in KwaZulu-Natal Province and highest-ranking Zulu in the mainly Xhosa leadership, and Ms Carolus, who is a "Coloured", both by wide margins, marked a victory for Mr Mandela, who was anxious the party affirm its non-racial and non-sexist credentials by electing a more broadly representative leadership.

The conference rejected a plan by the president that this process be artificially extended to the 60 party members due to be elected to the party's national executive today, by allocating nominations according to ethnic origin, gender and region. Many delegates acknowledged widespread grassroots frustration over the slow delivery on the ANC's election promises, but official reports to the conference by 11 policy commissions broadly endorsed the government's performance to date. To the surprise of some senior party members, the government's conservative economic policies won strong support.

Mr Trevor Manuel, trade and industry minister, said government officials in the commission examining the economy were taken aback by the acceptance at all levels of the need for fiscal discipline and sound economic management.

"I was amazed at the degree of consensus. I had anticipated extensive debate, but it wasn't nearly as sharp as I expected," Mr Manuel said.

The principle of privatising unproductive state assets was generally accepted. The commission resolved that any proceeds from such sales should be used only for retiring state debt, not current expenditure. The commission recommended tighter government spending curbs, a campaign to encourage tax evaders to start paying, and the formation of a permanent ANC Economic Commission to monitor progress.

Resolutions were adopted urging an investigation into the viability of a national health insurance scheme, and the introduction of incentive schemes for foreign investors provided they did not interfere with workers' rights.

Rao tries to end market scandal

By Stefan Wagstyl in New Delhi

The Indian government yesterday rejected a parliamentary committee's demands for further punitive action against those allegedly involved in the 1992 Rs40bn (£816m) Bombay securities market scandal.

In a report presented to parliament, the government sought to end argument over the scandal by spelling out the punishments already imposed on individuals and institutions and the regulatory changes made to improve operation of the securities market. The government was responding to an all-party parliamentary report presented last December demanding tough action.

But the opposition parties, which have sensed the ruling Congress (I) party is vulnerable to accusations of corruption and financial incompetence, yesterday pledged to keep up the attack.

The opposition parties want the resignations of the health minister, Mr B. Shankaranand, who was oil minister during the scandal, and of Mr Romeshwar Thakur, rural development minister, who was a junior finance minister in 1992. In an all-party parliamentary report into the scandal presented last year, Mr Shankaranand was accused of having authorised various money transfers when, as oil minister, he headed the state-owned Oil Industry Development Board. Mr Thakur was accused of having delayed investigations.

Demands for their resignations have become entwined with calls for the resignation of Mr Kalpnath Rai, food minister, blamed in a government report for the mishandling of a sugar shortage this year.

The demands have left Prime Minister P.V. Narasimha Rao in an awkward position because he wants to clean the party's image following recent state elections in which it fared badly, partly because of voters' anger at alleged corruption. Mr Rao has not dismissed the ministers for fear of splitting the party leadership. Congress MPs believe he still hopes to organise a Cabinet reshuffle to camouflage any sackings.

In yesterday's report, the government detailed measures taken to improve banking supervision, including the setting-up of a Board of Financial Supervision within the Reserve Bank of India, the central bank, and rules to improve transparency in stock market trading. It listed officials and bank executives dismissed or moved because of the scandal and said criminal cases had been lodged against 96 individuals.

In rejecting the parliamentary committee's demands for cancellation or suspension of licences for foreign banks alleged to have been involved in the scandal, substantial punishment, including financial penalties, were said to have been imposed already.

Nerves over deficit and dissidence

Stephen Fidler and **Ted Bardacke** assess the devaluation of Mexico's currency

In the end, something had to give in order to break Mexico's vicious economic circle.

What gave was the exchange rate. The government of President Ernesto Zedillo, which took office at the start of the month, yesterday announced the first one-step devaluation of the Mexican peso since December 15, 1987.

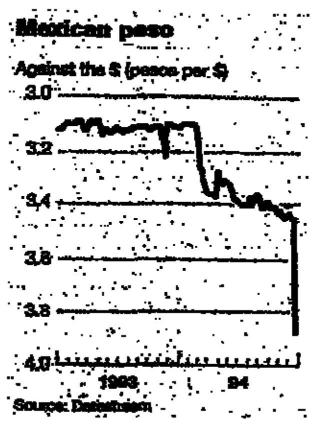
There is no guarantee, however, that the step, which surprised many foreign investors, will take the economic pressure off Mr Zedillo's government.

His conundrum was this: The exchange rate, used for six years as a tool to fight against inflation, had looked increasingly overvalued. This contributed to a current account deficit that is, this year, expected to exceed $28bn (£17.9bn), or 8 per cent of gross domestic product.

To sustain the exchange rate in the face of this, and in the face of growing concern among foreign investors about the size of the deficit, demanded higher and higher interest rates, which was slowing the economy. Worries about an economic slowdown made foreign investors even more wary about Mexican risk. These concerns were heightened – and capital flight was apparently intensified – during the last couple of weeks as political tensions in the southern state of Chiapas also mounted.

Furthermore, if the conflict in Chiapas were to become even more intense, as it may well in a matter of weeks, the speculative pressure could well have become impossibly powerful.

Therefore, the government may have judged it better to act now, than to operate in panic later.



The move yesterday formally lowered the floor of the peso by 14 per cent. The permitted daily slide remains unchanged, which suggests a further permitted annual depreciation of 4 per cent. The peso did not drop to its floor yesterday, however, and was being quoted at about 3.95 to the dollar, compared with 3.45 on Monday.

Taken with the 10 per cent depreciation of the currency seen earlier in the year, this means a peso devaluation of more than 20 per cent.

The devaluation should help bring down the current account deficit, by spurring exports.

One problem is that it will not come down very quickly – it could still be $25bn next year – and some foreign investors will feel bruised and uninclined to invest further.

President Ernesto Zedillo: new administration remains under pressure Picture: AP

Until yesterday, Mr Zedillo's government had been pledging that it would keep exchange rate policy unchanged.

Most economists yesterday said they thought that the devaluation should allow short-term peso interest rates – which on Monday were traded above 20 per cent – to fall. This should benefit small and medium-sized companies which have been unable to borrow in dollars and whose growth has been particularly hurt by current policy.

In the medium term, the key economic variable will be the behaviour of wages. If the government succeeds in keeping down wage claims, then the new strategy will be sustainable. However, if wages start to rise – and, for example, the agreement which the government says it has secured with the trade unions starts to collapse – the gain for Mexican competitiveness will be lost in higher prices.

While sharp devaluations of European currencies in 1991-92 did not increase wage pressures, economists point out that it is hard to find as many beneficiaries in Mexico's relatively closed economy (trade accounts for some 15 per cent of GDP) as in the more open European ones.

The new government of Mr Zedillo is thus betting that the measure will be taken well by those most immediately affected: namely, foreign investors and big Mexican companies.

Analysts say that the decision to have a one-off devaluation will be successful only if it is perceived to be a unique event, rather than the first of a series.

"If confidence in the currency is restored by this move, then interest rates ought to fall, investment will increase and economic growth be very strong next year," said one analyst. "But, if the markets don't react well, it could be the beginning of a long downward spiral."

The immediate impact on big Mexican companies, most carrying a heavy load of dollar debts, is likely to be negative.

Companies such as Telmex, Cemex, Televisa, and Aeroméxico were hit hard by exchange write-downs in the first quarter of 1994, when the peso fell by nearly 10 per cent. With the new devaluation taking place close to the end of the year, 1994 profits will take an even bigger hit.

But the Mexican stock market generally reacted positively to the news yesterday. Analysts said less pressure on the peso was causing less pressure on the market in general, signalling renewed confidence, especially about foreign capital inflows and Mexico's worrisome current account deficit.

Inflation is the other main risk associated with the devaluation. Mexico is unlikely to reach its target of 4 per cent annual inflation for 1995, which prospect is fueling worries that the benefits of economic growth will be erased by spiraling prices.

"Are we seeing the dismantling of the Zedillo programme of strict monetary policy?" asked one money market trader.

Finally, some analysts worried that, in the face of political instability brought on by the unresolved conflict in the state of Chiapas, the Zedillo administration has blinked too soon. "If a few armed peasants in Chiapas can change the exchange rate, then I wonder how resourceful the government will be in the future," said the trader.

Poverty in Latin America 'outweighing growth'

By Stephen Fidler, Latin America Editor

Latin America has shown signs of a new economic dynamism this year, but current rates of growth remain remain insufficient to have much impact on the region's poverty levels, the UN Economic Commission for Latin America and the Caribbean says today.

In its annual preliminary economic overview, Eclac says regional growth this year rose to 3.7 per cent, from 3.2 per cent last year. Average regional inflation – excluding Brazil, whose inflation rate has fallen substantially in the second half – fell to 16 per cent, from 19 per cent last year.

The 1994 growth performance was the second strongest in 14 years, and resulted in per capita growth of 1.9 per cent.

Despite this, the commission said: "Growth rates of less than 4 per cent are not enough to allow great advances in the fight against poverty, nor to prevent unemployment and underemployment from remaining unacceptably high."

Growth rates in Latin America had converged over recent years. Only three economies – those of Guyana, Argentina and Peru – grew by more than than 5 per cent this year, with Peru expanding by 11 per cent. Three contracted: Haiti's by 6 per cent, Venezuela's by 4 per cent and that of Honduras.

Imports rose by 15 per cent this year to $171bn (£110bn), after growth of 8 per cent in 1993, with imports growing fastest in Peru (36 per cent), Argentina and Brazil (25 per cent each).

But exports rose by 14 per cent, after 5 per cent growth in 1993, to $153bn. This was helped by increases in prices of non-fuel raw materials, for the first time since 1989, as well as by an 8 per cent expansion in export volumes.

The regional trade deficit grew from $15bn to $18bn, and the current account deficit rose from $46bn to $50bn, with increasing debt servicing and other factor payments also contributing.

However, this was more than covered by capital inflows of an estimated $57bn, down from $65bn in 1993. Episodes of capital flight in Mexico and Venezuela "did not have repercussions in other countries," Eclac notes.

The region accumulated hard currency reserves of a further $7bn in 1994, against a $20bn increase in 1993, despite falls of $9bn in Mexico's reserves and $4.5bn in Venezuela's.

Of the $57bn of inflows this year, $17bn came through bond issues, a sharp reduction on 1993, about $5bn through the issue of shares in foreign markets, and an estimated $15bn in foreign direct investment.

The region's debt rose 5.8 per cent to $534bn, despite Brady debt reduction deals for Brazil, Ecuador and the Dominican Republic. However, because of the rise in exports, the region's debt-to-export ratio fell from 302 per cent to 280 per cent, the lowest level since the start of the debt crisis.

AMERICAN NEWS DIGEST

US trade deficit up in October

The US trade deficit rose to $10.1bn (£6.5bn) in October, from a revised $9.4bn in September, roughly in line with market projections. The deficit for the first 10 months rose to $90.5bn, a 42 per cent increase from the equivalent period last year.

The increase last month reflected a 0.8 per cent increase in imports and an erratic 0.6 per cent decline in exports, caused partly by a decline in exports of civilian aircraft. A deficit of $15bn on trade in goods was partially offset by a $4.9bn surplus on trade in services.

There are signs, however, that the deficit is beginning to level off as economic growth accelerates in Europe and Japan, boosting demand for US exports. Averaged over three-month periods, the deficit has been stable at $9.5bn-$10bn since June. Many economists expect the deficit to contract next year, given the weakness of the dollar and the likelihood of slower US growth.

The geographical distribution of the deficit remains a source of tension in Washington. Last month, the merchandise deficit with Japan rose to $6.7bn from $5.4bn. The overall merchandise deficit with Pacific Rim countries rose to $12.6bn, against $10.9bn. The US runs small deficits or surpluses with most other regions. *Michael Prowse, Washington*

White House shooting

A man was shot by security guards outside the White House yesterday, after he was seen waving a knife, witnesses said.

The US Secret Service confirmed that a US Park policeman shot a man after he had threatened the officer with a knife on the pavement in front of the north side of the White House, on Pennsylvania Avenue. Secret Service spokesman Carl Meyers described the man's condition as "real bad."

This was the third shooting incident near the executive mansion in less than two months. In late October, a Colorado man sprayed the front of the White House with semi-automatic gunfire and was later charged with attempting to assassinate the president. *Reuter, Washington*

Jamaican bank taken over

The Jamaican government has taken over one of the island's banks because of dissatisfaction with its operations. Auditors will run the Blaise Trust and Merchant Bank for an unspecified period, according to Mr Omar Davies, finance minister.

There were no indications of the nature of the government's concern. The finance ministry had contemplated taking over the bank earlier this year, but delayed because the management was changed. Mr Davies said that "new information" on the bank's operations had led to the takeover.

The move does not suggest any crisis in Jamaica's banking services, according to an official of the Bankers' Association. Blaise Trust and Merchant is the second bank to be taken over by the Jamaican government in the past two years. Tower Merchant Bank was restructured. *Canute James, Kingston*

Brazilian police seized

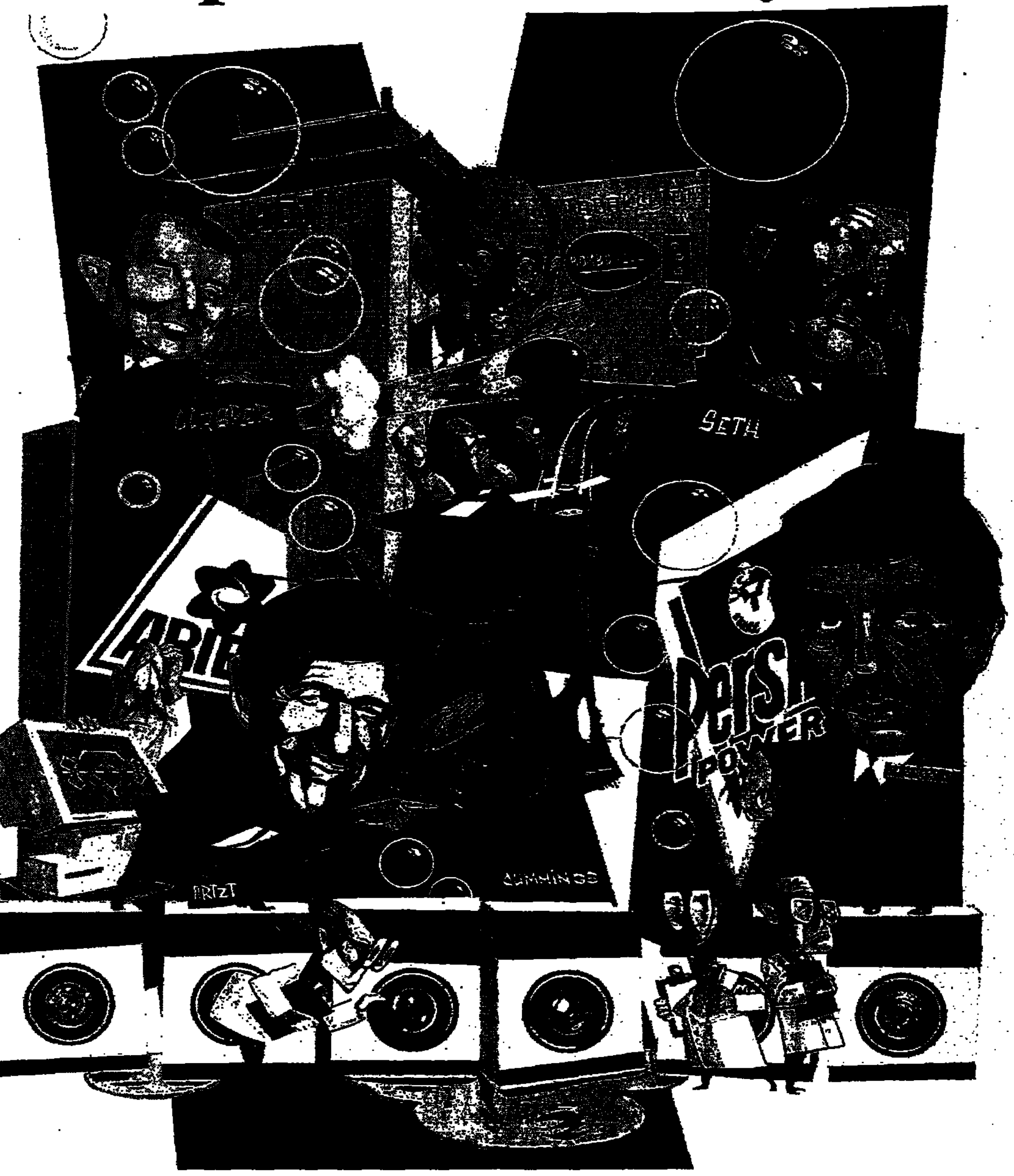
Three police officers have been taken hostage by farmers protesting at the creation of a tribal reservation near their land in northern Brazil, Globo television reported yesterday.

An estimated 10,000 farmers poured into the small town of Montesalves, in Maranhão state, and are demanding the land earmarked for the indigenous people. As well as holding the officers, the protestors set fire to a bridge on a road to the site. *Reuter, Rio de Janeiro*

NEWS: SOAP WARS

Washing whiter proves a murky business

When Unilever and Procter & Gamble clash everyone pays a price, **Roderick Oram** writes



Clutching a brightly coloured package, Nabil Sakkab hurried to his office and poured the contents on to his desk.

Before him was a heap of detergent, a substance Sakkab, as Procter & Gamble's European head of laundry products development, dealt with daily. But as his scientist's eye looked more closely, he could see this sample was different. Scattered among the white granules were myriad, tiny, pink crystals.

"My God! They're really going to use it!" he exclaimed to colleagues. It was mid-March 1994. What Sakkab had spotted was a secret weapon just deployed by P&G's arch rival Unilever: crystals of manganese, a catalyst that could dramatically increase the cleansing power of a detergent.

Unilever was claiming its new formula was the biggest advance in fabric detergents in 15 years. Sales of the product – Omo Power – were leaping in the three European countries where it had been launched a month earlier. P&G was worried.

Sakkab was astounded that Unilever would use manganese. P&G knew from its research that manganese could speed the bleaching process. But it also attacked fabrics – which was why the US company had abandoned it as a possible detergent ingredient 10 years before.

Was Unilever committing a huge, and potentially costly, blunder in using the catalyst?

With that question began the Great Soap War of 1994 and what was to become a major debacle in international marketing – perhaps the biggest since the botched reformulation of Coca-Cola in the early 1980s.

It was a battle that tarnished the image of the £9bn European detergent industry, may have permanently changed the rules of engagement in one of the west's key consumer markets, and raised serious questions about management capabilities and structures in two of the world's biggest companies.

For Unilever, it was a protracted nightmare. Its new Persil and Omo Power detergents, launched last February, were supposed to regain the initiative in the European fabric detergent market. Instead the detergent was subjected to unrelenting media scrutiny and a fiercely hostile campaign by P&G. The trouble was, the flaws exposed were all too real.

Power was not just another new product. It was intended to blaze a trail in the consumer goods business by combining advanced product technology and innovative techniques of pan-European marketing.

Much was also riding on the success of the product for one man: Niall FitzGerald, Unilever's global co-ordinator of detergents since in 1991. The ambitious 49-year-old Irishman with 27 years service at Unilever had risen through the ranks, thanks to ability, drive and a persuasive charm.

FitzGerald enjoyed nothing more than challenging Unilever's stuffy conventions. When he was eligible for his first company car he chose a powerful Kawasaki motorcycle. The form-filler balked. FitzGerald told him: "There's no rule says I can't have a motorbike."

FitzGerald knew that his ability to turn round Unilever's ailing detergent business would determine his hopes of eventual ascent to the joint chairmanship of the group. He was out to change things in detergents, breaking down the bureaucratic structures that made Unilever less than fleet of foot in launching new products.

In Europe P&G had long since overtaken it in fabric detergents. The gap grew in the late 1980s when Unilever was slow to develop concentrated versions of the product. What Unilever needed to win back the lead was a quantum leap in detergent effectiveness.

A senior Unilever executive said: "We knew our second entry into the concentrated market had to be something very different, not just in the laboratory but to the consumer. Mrs Jones had to notice and say: 'This really is different'."

The salvation was to be science. A veteran of the company's detergents business said: "Technology creates bigger swings in market power for detergents than any other consumer product." Selling a big new idea to consumers can differentiate a new product from the pack, and brings big gains in market share.

In this case the big idea was the manganese catalyst that Unilever, long after P&G had given up, continued to pursue. After five years of development Unilever decided last December that it had tamed the metal.

If the science was ambitious, so was the marketing. Exploiting its new pan-European structure, co-ordinated like P&G's from Brussels, Unilever planned to launch Power in 11 countries in short order.

It was a marketing blitzkrieg without precedent in Europe. It was also a plan that would leave Unilever terribly vulnerable if something went wrong.

By late February 1994 the alarm bells were ringing at P&G's world headquarters in Cincinnati, Ohio. P&G was also working on a new detergent – Ariel Futur – for launch later in the year. As sales of Power took off in Europe P&G was anxious to find the ingredient underlying the rival's success.

When the answer came from Brussels – the pink crystals pinpointed by Sakkab – no one was awaiting it more eagerly than Ed Artzt, P&G's famously domineering chairman. Nicknamed the Prince of Darkness, Artzt had a well-earned reputation for responding rapidly and ruthlessly when he felt P&G's interests were threatened.

The Power detergent was, in his view, just such a case. Unilever was not only claiming to have stolen a technological march, it was basing its claim on a formulation which P&G had reason to believe was fundamentally flawed.

But was Unilever now proving that conclusion wrong?

Sakkab's findings suggested not. Some dark dyes in cotton and viscose fabrics reacted badly to the detergent. A week after finding the crystals he and his colleagues in P&G's European Technology Centre were discovering holes in clothes they had washed in Power. They also believed – although this is a claim that has subsequently won little support from independent testers – that the manganese lingered in the clothes and would continue to damage them when washed in other manufacturers' detergents.

Armed with this belief, Artzt resolved on an unusual move. During a visit to London on March 31 he called at Unilever House, the company's imposing art-deco headquarters by Blackfriars Bridge. In a meeting with FitzGerald and other top executives he demanded that they withdraw their new detergent. Power products, he said, were so flawed as to be likely to cause significant overall damage to the fabric detergent market.

Artzt's warning left FitzGerald and his colleagues suspicious. True, there was a long tradition of collaboration between Unilever and P&G on technical issues. For all the aggression in the marketplace the two companies had often privately alerted one another to flaws in their products and worked together to solve them.

But a visit from P&G's chairman was something else. "It was too theatrical," said a Unilever executive who was at the meeting. Another said: "If it had been anybody but Artzt – say Helmut Maucher [chairman of Nestlé] – we would have believed him."

FitzGerald enjoyed nothing more than challenging Unilever's stuffy conventions. When he was eligible for his first company car he chose a powerful Kawasaki motorcycle

In vain Artzt argued that he had broader industry interests at heart. His Unilever audience concluded that he was on a massive spoiling operation to undermine their important new product. They decided to ignore him.

Over the next few weeks Artzt and FitzGerald exchanged increasingly acrimonious letters. Their subordinates met once in Brussels to try to agree on joint testing. But Unilever, insisting that its tests had shown no fault, refused to accede to P&G's demand that Power be withdrawn from the market before joint testing started.

FitzGerald could see no need to take the costly and humiliating step of withdrawing a product that had been tested by scientists and consumers for two years without incident. Yet in ignoring P&G's private warning he laid Unilever and its Power detergent open to an unprecedented campaign of public vilification.

With hindsight, senior Unilever executives still argue there was little they could bhave done to forestall an onslaught so contrary to the industry conventions. They appear convinced that P&G had been planning a frontal attack on Power all along.

P&G vehemently denies this is true. But in one sense it is immaterial. The inescapable fact is that whatever P&G's intentions, it was Unilever that provided it with ammunition by launching a flawed product.

According to company executives Unilever management compounded the problem with two blunders that magnified Power's defects.

First, it was decided to use a high concentration of the manganese catalyst to maximise the bleaching effect. Second, Unilever marketed it as a detergent for broad use with all fabrics, water temperatures and colours, rather than as a more specialised product.

Unilever wanted a broad "positioning" to cut through the proliferation of detergent varieties and specifications that had been sowing increasing confusion among consumers.

It was aware throughout that Power would inflict somewhat more damage on fabrics than did earlier detergents. But it accepted that as the price of more effective stain removal.

To understand these decisions – which Unilever executives confirm were taken at a high level of the company – one has to imagine the sheer enthusiasm about the Power products that had FitzGerald and his team in its grip.

They were egged on by the positive consumer response evident during testing, particularly last autumn when the new formula was applied to an existing Unilever brand in the Netherlands, All-Activ, and sold without relabelling as a new product. A senior Unilever executive said: "We got very positive consumer response and got nothing suggesting there was a problem."

It seems that FitzGerald and those around him, buoyed by these results, got carried away and pushed the product harder than had been the norm.

Detergent companies often "front-load" a new product with bigger dosages of the most active ingredient in the launch phase to get the strongest consumer response. Normally they later pull back to strike a balance between cleaning effect and profit. Unilever did not – or at least, not soon enough.

A senior Unilever executive said: "I think we were very enthusiastic about an exciting new product and did not look closely enough at the negatives. Somewhere between research and marketing something went wrong – under the normal pressure to be first to the market."

The first public sign of trouble for Unilever came with a story in the Dutch press on April 27, purporting to quote a spokesman for P&G alluding to fabric damage caused by Power. In a confusing twist, the spokesman said the company would also put "Power" stickers on its own detergents.

Within 48 hours Unilever called a press conference denying the claims. It launched two writs for product defamation and trade mark infringement.

P&G's press campaign was remarkable not just for its ferocity but for its moments of ineptitude. Neither Unilever nor P&G was skilled in the art of corporate public relations. Past masters at promoting their brands through advertising, they have tended to try to keep out of the corporate spotlight. The brands, not the companies, were supposed to do the talking.

P&G, however, undoubtedly had the edge – no doubt in part because it had for the first time enlisted the help of an outside PR firm, The Rowland Company, a Saatchi & Saatchi subsidiary. As to Unilever, it had obviously failed to anticipate how violently P&G would react and how ill-equipped it was to handle the onslaught.

Until the end of May the Anglo-Dutch company just about managed to hold its own with consumers. Although Power sales fell after every P&G onslaught, Unilever was able to rebuild them with advertising and special offers.

FitzGerald knew, however, that the position could not be held for long. Apart from anything, he and his colleagues had realised that P&G had a point about Power's effect on some dark dyes. Although Unilever considered the circumstances extreme and irrelevant to consumers, the criticism would have to be met – and that meant changing the product's formulation.

On the first weekend in June three events transformed the nature of the battle. That Friday Unilever announced that it was dropping the lawsuits against P&G, after P&G assured Unilever that its spokesman had been misquoted. It also announced that it was reformulating the detergent, with an 80 per cent cut in the catalyst to solve the dye problem.

Third, P&G released to the press a set of colour pictures showing clothes purportedly suffering the ill effects of Power – including memorable shots of some tattered boxer shorts which were duly reproduced by the press all over Europe.– plus results from six test institutes. P&G had to backtrack on the pictures when it was pointed out that the shorts were from its own tests, not those of the institutes. It was one of several examples where P&G went over the top in its campaign.

Nevertheless, the awkwardness of Unilever's position was plain to see. Much as the company tried to deny that there was a problem and to claim that the product's effectiveness was unchanged, by reformulating Power it had conceded an important point to the opposition.

Unilever also decided to retreat from Power's broad market positioning to a more specialised niche – revamping the packaging to focus use on lower temperatures and white fabrics.

This was a climbdown since Unilever had set out at the time of launch to present Power as a product for broad uses in order to reduce consumer confusion. It was a shift that, for the time being, the company understandably chose not to broadcast – proclaiming disingenuously that diluting the catalyst was designed to *broaden* Power's usefulness.

With the June announcements "all hell broke loose", as one Unilever man put it. Power was front-page news in several European countries – notably in the Netherlands, where it had the added spice of humbling a home-grown multinational – and was generating the wildest stories. In Sweden a leading environmental campaigner claimed on television that Power had placed the nation's clothes in imminent jeopardy. Unilever blames P&G's "well-organised briefing system" for much of the trouble.

A senior Unilever executive said: "We found we were subject to a ruthlessly well-organised knocking copy campaign. P&G was literally running around Europe to consumers associations, washing machine manufacturers, retailers and anybody else who would listen giving them a very extensive technical briefing with lots of lurid pictures.

"We were chasing this well-armed arsonist around Europe. It took a week to put out each fire. That's why we appeared on the defensive."

Both companies are also learning painful lessons. One is that the rules of the game appear to have changed for good when it comes to testing and marketing new products

The company was not only defensive with the press and public, it also failed to find an effective counter to what eventually became a stream of reports from consumers associations criticising Power detergents. Ignoring the associations' public support, its usual response was to question their competence. Behind the scenes, both it and P&G subjected them to the most intense pressure to take sides.

Nothing summed up Unilever's inadequacy better than the response of a senior company executive to a reporter's hypothetical question. If a negative television news item about Unilever's detergent was followed by an advertisement extolling its virtues, which would the consumer/viewer believe? "The advertisement, of course," the executive replied.

By the summer the battle over Power detergents had become an obsession for top executives in both companies. In the anger of battle, a certain loss of perspective was evident on both sides.

As one supermarket executive, subjected by both companies to persistent lobbying, put it: "Both think they are morally right and that the other side has been practising the black art."

One UK retailer held a dinner party during the summer for a group of its suppliers. Among the guests were Andrew Seth and Mike Clasper, respectively heads of UK detergents at Unilever and P&G. The spectacle of them glowering at each other all evening has become a legend in one of the soap companies.

At Unilever, FitzGerald was spending all his time on the problem even though Power accounted for only one-twentieth of Unilever's global detergent sales. Worse for him, his relationship with the company's ruling "special committee", consisting of the chairmen of the UK and Dutch arms of Unilever, was changing.

FitzGerald had made the running throughout the crisis, informing his superiors of his actions. But insiders say that during the summer Sir Michael Perry and Morris Tabaksblat, the British and Dutch co-chairmen, started to take a more active role. Their questioning of the detergents team became more pointed. Finally, the concern of one co-chairman emerged in public.

When Morris Tabaksblat flew to Beijing in September his purpose was to open a new Walls ice cream factory to serve the burgeoning Chinese market. But he clearly had something closer to home on his mind. It took little prompting from the journalists travelling with him to elicit the first clear, dispassionate and on-the-record explanation from a senior Unilever executive of Power's fatal flaw. Remarkably, it had taken a full five months of crisis for Unilever to speak up.

Tabaksblat said: "We made a mistake. We launched a product which had a defect which we had not detected." He spoke of a lack of appropriate safeguards in tests before the launch and admitted that certain textile dyes which reacted badly with the catalyst had not been in Unilever's "test battery".

Back in Europe those in the thick of the battle felt betrayed. They came, sarcastically, to refer to Tabaksblat's apparently unscripted intervention as "The Beijing Initiative".

No one was more embarrassed than FitzGerald. At the very moment that Tabaksblat's remarks were becoming public property, he was on a Warsaw stage expanding to Unilever staff on his favourite theme about changing the company's culture.

As he spoke an aide passed him a note summarising Tabaksblat's comments. Stunned, he took the next plane home to rally the troops.

No one was more delighted than Artzt. At last Unilever had admitted that P&G had a point. A newspaper article reporting Tabaksblat's remarks has pride of place on his Cincinnati office wall.

In the months since Tabaksblat spoke Unilever has had ample opportunity to count the cost of its Power failure.

After spending £300m on developing, manufacturing and marketing Power products, Unilever's share of the European detergent market is no better than a year ago – a poor second to P&G.

A heavy price has also been exacted on reputations – that of the company and of its Persil and Omo brands. The brand damage "is not yet considerable but if it's not put right, it could be", says a senior Unilever executive.

As for the company, Unilever's pan-European structure was subjected to its first big test with the Power launch, and was found wanting. Its management looked flat-footed and inflexible. Its image as a savvy marketer and innovator was undermined.

A senior supermarket executive said: "We know Unilever well. Normally they are a class act but they don't look too clever now."

But the damage is not only to the Anglo-Dutch combine. The whole detergents industry will have reason to regret the affair if, as seems likely, it exacerbates consumers' scepticism towards manufacturers. A leading retailer said: "The whole sector is drowning in over-claiming and publicity which leaves consumers confused."

P&G, for its part, may have halted Power in its tracks. But its executives are aware that they failed to win the outright victory of forcing Unilever to take Power off the market.

Moreover, P&G has reinforced its widespread image as a ruthless, self-seeking organisation with the unedifying sight of it picking a street fight with Unilever. "It is a gross misperception. It needs to be remedied but it can't be changed overnight," a senior P&G executive said. For some people in P&G, achieving this depends on the personality of whoever succeeds Artzt when he retires in the next few years.

Both companies are also learning painful lessons. One is that the rules of the game appear to have changed for good when it comes to testing and marketing new products.

Unilever admits that complex new detergents might now have to be subjected to testing as exacting as for food or pharmaceuticals. "With a quantum change in technology, we may have to re-examine all our test regimes," said a senior detergents executive.

Some extreme tests might not be relevant to consumers but Unilever says it wants to find anything which competitors could use against it. That can only raise costs and slow the pace of innovation.

Unilever now faces a formidable challenge. In the coming months it has to rebuild confidence in its Persil and Omo brands and its own staff's morale, as well as finding new products in which it can use its pioneering technology without problems.

It will also have to address the organisational and management issues the conflict has raised. This is not, executives stress, a question of finding a culprit. "No one person" is to blame, says a senior Unilever man. "All the checks and balances work together."

Looking to the future, all eyes are on FitzGerald. He rallied the troops at every setback and has started to preach forcefully the lessons learned. Significantly, this week Unilever delayed his expected ascent to its special committee by a year to 1996 – on the grounds that he still had much to do in detergents.

Additional reporting by Diane Summers and Neil Buckley

See Editorial Comment

$2.5bn gas development to go ahead

By Robert Corzine

The British government yesterday approved development of the UK's biggest remaining untapped natural gas field.

Gas from the £1.5bn ($2.5bn) Britannia field, 200km north-west of Aberdeen in Scotland, will be sold exclusively to independent gas marketing companies and power generators. It will be the first time that a big North Sea gas field has not included British Gas among its buyers.

Some of Britannia's gas remains to be sold. But the list of initial buyers reflects the changing nature of the UK market, which is to be fully opened to competition by 1998, the year Britannia production will start.

Kinetica, the natural gas joint venture between Conoco of the US and the PowerGen of the UK, is thought by many analysts to be among the biggest buyers of Britannia gas. Others include Mobil of the US, National Power of the UK and Total of France.

In the past most gas contracts were on the long-term, "take or pay" model, under which wholesale buyers had to pay for the gas even if they failed to sell it on to their customers. There has been industry speculation that some of the Britannia contracts may be more flexible.

Observers note that a British spot market in surplus gas is likely to develop once competition is introduced by 1998. In addition the Interconnector, a pipeline linking the UK and mainland European gas grids, is expected to be completed in 1998, opening the prospect of large-scale exports of gas to mainland European customers. Conoco, the biggest participant in Britannia, also has a big stake in the Interconnector. Contracts to be awarded next year include the laying of a 185km gas pipeline to connect Britannia with the terminal at St Fergus in Scotland. A decision will be taken next year whether to expand the existing terminal or build another nearby. A separate 45km pipeline will take up to 70,000 barrels a day of liquid condensate to the Forties pipeline system.

Cunard blames subcontractors for QE2 troubles

By Neil Buckley and Andrew Baxter

Cruise operator Cunard yesterday blamed subcontractors for the delayed completion of a £30m ($49m) refit of the liner Queen Elizabeth 2. The delay resulted in 500 passengers being turned away from the ship's Christmas cruise.

The company said the refit, which involved refurbishing 960 cabins and building many new facilities in only 30 days, was "the biggest ever undertaken in such a short time". But it denied being over-ambitious.

"All the contractors knew what we were undertaking, and were prepared to tender for it," Cunard said. "They convinced us they could finish on time, and that was why they got the contracts."

Cunard said of more than 50 contractors, only "about three" British companies – which it refused to name – had not finished on time.

Some 57 per cent of refitting work by value went to British companies, the rest to German and other international groups.

The QE2, which had been running 24 hours behind schedule, was reported to be making up time after Force Nine gales in the mid Atlantic died down. It is now expected to arrive 13 hours late in New York, from where it will embark on a round-the-world cruise.

Cunard managers, who held a conference call with QE2 captain Ron Warwick yesterday, were told conditions were improving on the ship, where contractors are still working on cabins.

Passengers had complained that the liner resembled a "building site", with plumbing not functioning in many cabins and workmen's equipment strewn across public areas. Capt Warwick told Cunard more cabins were being opened, allowing passengers to move into better accommodation. The main refit contract, involving structural work inside the ship, was awarded to Blohm & Voss, the Hamburg-based shipbuilder. It said it had completed the work on time, but cabin work had been subcontracted to UK companies by Cunard.

Cunard said passengers unable to travel on the QE2's Christmas cruise would be able to take two cruises next year, Neil Buckley writes. The passengers were offered a full refund by Christmas, plus a free transatlantic cruise of equivalent value next year with £250 ($410) spending money. They could combine the free offer with their refund to upgrade their tickets next year, or even take two trips. The company said it was "not aware" of any customers taking legal action rather than accepting compensation.

Heathrow night flights plan overturned by court

By John Mason, Law Courts Correspondent

Britain's Department of Transport was yesterday forced to reconsider its current controls on night flights into Heathrow and two other airports after the High Court ruled the manner of their introduction had been illegal.

A judge ruled that former transport secretary Mr John MacGregor had acted unlawfully in failing to provide proper public consultation over the latest controls on night-time take-offs and landings at London's airports at Heathrow, Gatwick and Stansted.

The judge said a consultation paper issued by the Department of Transport in January last year was misleading because it did not make clear that the new arrangements would mean an increase in noise levels at Heathrow.

The ruling was welcomed by the five municipal authorities which brought the court action against the transport department. Mr Richard Buxton, their lawyer, said the ruling would force the government to reconsider its current quota system for night flights.

"Seldom is a government department found by the courts to have misled so many people over such an important environmental issue," he said. "The government essentially has to go back to square one."

The department was given leave to appeal over the ruling.

A spokesman said the judgment would be studied carefully before a decision was taken over the appropriate response. However, he said the controls would remain in place until March 26 next year.

Officials conceded that a fresh round of consultations was now inevitable.

The controls phased in this winter are based on a mixture of a quota system intended to encourage greater use of quieter aircraft and a ceiling on the number of individual flights. It was intended these controls would apply until summer 1998.

The department is expected to draw up new night flight regulations to cover next summer's flights.

Names say damages are due over breach of EU law

Lloyd's faces extra threat

By Ralph Atkins, Insurance Correspondent

Hard-hit members of Lloyd's of London have increased the pressure for an out-of-court deal to end litigation blighting the insurance market by threatening another massive claim for damages.

The Writs Response Group, which represents Lloyd's members resisting legal demands to repay money owed to the insurance market, says damages should be paid for losses suffered as a result of Lloyd's breaches of European Union competition law.

The move comes two weeks after Mr David Rowland, Lloyd's chairman, and Mr Peter Middleton, chief executive, announced a fresh attempt at forging an out-of court settlement between Names – individuals whose assets have traditionally supported the market – and the agencies they are suing.

Mr Richard Slowe, of law firm S.J. Berwin & Co, acting for the group, said he welcomed Lloyd's initiative. But the experience of lawyers was that "litigation is only ever settled if the other side appreciates that you are ready, willing and able to fight your case".

The action is based on last month's Court of Appeal ruling which suggested Lloyd's might have broken EU law by setting up a central fund as a policy protection scheme and by encouraging insurance syndicates to take out reinsurance polices within the market. Names argue that this distorted competition. The case could go to a full trial.

UK NEWS DIGEST

$33 handout is prompted by regulator

Trafalgar House, the conglomerate staging a hostile bid for Northern Electric, decided to give a £20 ($33) rebate to Northern's 1.3m customers at the prompting of Prof Stephen Littlechild, the electricity industry regulator.

Northern is one of several former state-owned regional power suppliers in England. Mr Brian Keelan, corporate finance managing director of Swiss Bank, advising Trafalgar, disclosed yesterday that the rebate concept arose from a meeting about a month ago at the regulator's office.

Mr Keelan said: "Professor Littlechild made it clear it would be easier for him to consider a bid for a regional electricity company that contained in its terms a tangible benefit for the consumer, over and above the tariff reduction that was published in August.

"Prof Littlechild decided he was Robin Hood . . . We would probably have done something like that anyway, but it's helpful to be guided by the regulator." Mr Keelan's comments will strengthen claims by Prof Littlechild's critics that the regulatory regime to take effect from April is too lax. "If Prof Littlechild believes Northern can afford to hand over £26m to customers under a new management, why did he not ask the existing regime to do it in August?" said one analyst.

Shares in Northern and most other regional electricity companies fell yesterday after Prof Littlechild published a consultation paper on Trafalgar's bid.

Salmon stocks at risk

A leading fisheries body has urged the British government to take action to safeguard stocks of Scottish spring salmon. The Atlantic Salmon Trust has been alarmed by a 25-year decline in the spring salmon run on Scotland's rivers, and is warning that without government action, the salmon angling industry's £50m ($82m) annual contribution to Scottish tourism could suffer.

The River Tweed has seen a 55 per cent drop in salmon catches – from 1377 to 621 – between 1989 and 1993. The Forth and the Tay have both seen drops of 27 per cent and the Dee 20 per cent.

'Slime' jibe withdrawn

Mr John Redwood, secretary of state for Wales, was forced to apologise after a junior minister in his department had insulted – in the Welsh language – members of municipal authorities in the region who belong to the opposition Labour party. His comments about them were translated into English as "short, fat, slimy and fundamentally corrupt". He also said they had been in power for most of the century without achieving anything. Mr Rod Richards later withdraw the comments, saying: "I know a lot of Labour councillors who are charming people."

Societies are fined

Serious breaches of regulatory rules emerged yesterday in the announcement of fines imposed by Lautro, the life insurance watchdog, on two friendly societies – Homeowners and Ideal Benefit. Homeowners, which has about 250,000 members, was fined £125,000 ($205,000) and must pay the regulator's costs of £30,000 after admitting nine charges relating primarily to misleading advertisements over more than two years.

Ideal Benefit, which has 23,000 members, was fined £25,000 and told to pay costs of £6,000 after admitting that for almost four years from April 1990 it had not had effective procedures in place to ensure it met regulatory standards.

Prince visits victims

Prince Charles paid an unscheduled visit to the area of Scotland damaged 10 days ago by floods which left three people dead, forced 600 from their homes and left damage including closure of a railway which will take months to clear. Political opponents of the government said the visit, during which the prince expressed concern for the victims, had highlighted the failure of Conservative ministers to tour the worst-affected areas. When the prince was asked if he could use his influence with the government to secure more aid for the area, he replied: "I don't know what influence I have."

Mr Gordon McMaster, Labour MP for Paisley South, told reporters: "I think he has embarrassed Ian Lang, the [Conservative] secretary of state for Scotland, who could not even come to Paisley. It is time he stopped being the cabinet man in Scotland and became Scotland's man in the cabinet."

■ FILM IS CLEARED: Oliver Stone's film Natural Born Killers has been cleared by the British Board of Film Classification for release uncut. After contacting police and the Federal Bureau of Investigation the board dismissed links between the film and murders in the US and France.

■ DRUG SMUGGLERS JAILED: Nine men were jailed for between two and 12½ years over the landing of 4 tonnes of cannabis resin packed in 96 fish boxes aboard a trawler. The nine included the skipper of the trawler based in south-west England and an agricultural worker from St Tropez in France who was said in court to have had the ability to obtain drugs.

■ FESTIVE GREETING: A woman sentenced to prison at the High Court in London was ruled in contempt after choosing an unusual form of greeting for the judge. She bared her bottom, revealing that "Merry" had been written on one buttock and "Xmas" on the other.

Earlier-than-expected start set for satellite channel

BBC ready to launch TV news service in US

By Raymond Snoddy

The British Broadcasting Corporation is planning to launch its 24-hour satellite news service, BBC World, in the US in February in a deal with International News Network of New York.

The launch, much earlier than expected and less than a month after BBC World goes on air in Europe, is designed to take advantage of changes in US cable regulations.

The Federal Communications Commission recently decided that cable operators could charge more for their basic cable packages if new channels were offered. Virtually no new basic cable channels have been added in the US since late 1993 when the FCC clamped down on cable rates.

Mr Reese Schonfeld, the former president and chief executive of Mr Ted Turner's CNN network who now chairs INN, said he expected a high proportion of large cable operators to at least test BBC World in their markets. He conceded however that competition would be intense with more than 60 channels competing for around six new channel slots.

Two brothers, Mr Russ and Mr Les Hilliard, who operate cable systems in Nebraska, Montana and Texas are behind INN and this will give BBC World access to their 75,000 cable homes.

"For them it [bringing the BBC to America] is an act of love and devotion; they have been looking for such a service," said Mr Schonfeld.

CNN, Mr Schonfeld adds, provides the who, what, where and when of television news. "BBC World will add the how and the why with the help of pieces from Newsnight and Panorama," added the former CNN executive.

Later next year BBC World will be set up as a joint venture company and Pearson, the media group that owns the Financial Times, has an option to invest. In Europe Pearson is a financial backer of both BBC World and a complementary entertainment channel BBC Prime also launching on January 26.

The BBC is believed to be talking to Cox, the Atlanta-based media group about the possibility of also taking BBC Prime to the US.

To begin with BBC World will be very similar to the channel offered in mainland *Europe. It will gradually* become more tailored for the American audience with the emphasis on international coverage.

Part-time workers to have full rights

By Robert Taylor, Employment Editor

The UK's 6m part-time workers are to have the same statutory employment rights as those in full-time jobs, the government said yesterday.

The decision represents a humiliating climbdown for the government, which two weeks ago vetoed a draft European Union directive on part-time workers. It follows a judgment against the government in the House of Lords earlier this year over different legal rights of part-time and full-time workers.

It will bring Britain in line with European Union equality *laws. An estimated 750,000* employees, working less than 16 hours a week and in continuous service with their employer for over two years, will have new rights covering unfair dismissal and redundancy payments, extended maternity leave, a written statement of employment, time off for union activities *and notice of dismissal.*

Under current legislation passed in 1975 they have had to wait five years to qualify for equal treatment with full-time employees.

The decision was announced in a House of Commons reply by Mr Michael Portillo, employment secretary, who earlier this month vetoed the *draft directive because he said* it would impose intolerable constraints on job creation.

Yesterday he said the government was still convinced the removal from UK employment protection legislation of all existing distinctions based on the number of hours worked each week would make employers reluctant to create new part-time jobs for women and would threaten the security of existing employees.

The effects of the changes would be "carefully monitored to assess their impact on business and on employment opportunities," he said. "The government will reconsider the position *in due course if* objective evidence of adverse effects emerges."

However, some employer organisations expressed dismay at the decision. Dr Ann Robinson, head of the Institute of Directors' policy unit, described it as "another submission to a piece of nonsense legislation from Europe".

Setback for nuclear waste unit

Nirex, the nuclear industry's waste agency, was yesterday refused planning permission by Cumbria county council in north-east England for an underground rock laboratory. *Chris Tighe writes. The laboratory* is important for research on a proposed £2bn ($3.3bn) underground repository for nuclear waste.

Nirex wants to construct the £120m rock characterisation facility 650 metres underground near the Sellafield nuclear waste reprocessing plant in order to gather geological and hydrogeological data.

It said after the special county council meeting that it would appeal against the refusal. "This decision - which we believe has been made without valid planning reasons - leaves us no choice but to appeal to the secretary of state," said Nirex managing director Mr Michael Folger. Nirex insists that the laboratory would not be a nuclear facility.

The appeal is virtually certain to delay further a final decision on the repository. Technical changes and planning wrangles have already set back Nirex's target for the facility by five years to 2010.

Tories fear split with Euro-rebels may be permanent

The prospect of a permanent split between *the British government* and nine Tory Euro-rebels suspended from the parliamentary party was raised for the first time yesterday after the group rejected Mr John Major's demand for an end to the rebellion, Kevin Brown writes.

As the Commons rose for the Christmas recess, senior ministers said that Mr Major would stand by his insistence in a Financial Times interview that the rebels must back the government for several months to regain the party whip.

But Mr Tony Marlow, a key organiser of the group, warned Mr Major to declare a Christmas truce. "If he does not do that there is a risk that the momentum of circumstances will almost formalise the split," he told BBC radio. Mrs Teresa Gorman, MP for Billericay, said it was time for Mr Major to end the suspension, imposed after eight of the rebels voted against higher UK contributions to the EU. A ninth MP resigned the whip shortly afterwards.

"The grown-up thing to do is *for the teacher, in this case* John Major, to say 'that is enough'," Mrs Gorman said.

The increasingly hard tone adopted by the rebels was interpreted at Westminster as a signal that they are determined to act as a separate group within the Conservative party in the hope of forcing the prime minister to negotiate.

Mr Michael Howard, the home secretary and leading cabinet Eurosceptic, sought to play down the split, insisting that there was "no doubt at all that we shall fight the next election as a united party".

However, other ministers said that Mr Major would not back down because of the fear that an early reconciliation with the rebels would be seen as weakness that would prompt further indiscipline.

Conservative whips hope that the government's unambitious legislative programme for the remainer of the parliamentary session will deprived the rebels of the opportunity to stage further revolts.

Glaxo appoints Niedel as research and development director

Glaxo has appointed James Niedel, 50, as its new director of research and development in the wake of the departure of Franz Humer to Swiss rival Roche.

Niedel, below, an American, is currently director of the Glaxo Research Institute in

North Carolina and a senior vice-president of Glaxo Inc, the company's US subsidiary.

Niedel joined Glaxo in 1988 from Duke University, North Carolina, where he was professor of medicine.

From 1977 to 1980 he was a research scientist at Wellcome Research Laboratories, also in North Carolina.

He will report directly to Sir Richard Sykes, Glaxo's chief executive and former director of research and development.

Other appointments follow from Niedel's promotion. Terence Eaves, development director of Glaxo Research and Development Ltd UK replaces Niedel in the US. Göran Ando moves from group development director and has been "assigned special duties reporting to Sir Richard Sykes". Ando is replaced by James Palmer, currently Glaxo's chief medical officer in the US and senior vice-president, medical operations.

Humer was also in charge of commercial strategy, and a replacement in that function has yet to be made by Glaxo. *Daniel Green*

Ivory & Sime splits board responsibilities

Ivory & Sime, the *Edinburgh-based fund management* group, is to reorganise its board, separating responsibility for the overall management of the company from responsibility for investment management.

The split, involving the departure of six directors from the main board, follows the arrival as managing director *designate of Colin Hook. Hook* joined Ivory & Sime last month from Caledonia Investments, the holding company controlled by the Cayzer family, which took a 29.9 per cent stake in Ivory & Sime in July. He will formally replace Allan Munro as managing director on January 1.

"We want investment managers to be able to focus purely on fund management without having to worry about running a quoted company," Hook says.

The six departing directors will join Ivory & Sime Investment Management, a hitherto dormant subsidiary. They are James Anderson, Richard Muckart, Richard Ramsay, *Michael Woodward, Mark Tyndall* and Ian Paterson Brown, each of supervises different investment sectors. That will leave a board of eight people, six of whom are non-executive, under David Newbigging, chairman.

Munro will remain on the main board, though concentrating on fixed interest securities. Sir David Kinloch, a director of Caledonia Investment, joined the board in September. *James Buxton*

■ Leslie Hart, former head of personnel at Fidelity International is appointed head of human resources at THREADNEEDLE ASSET MANAGEMENT.

■ Pat McQuillen becomes md of Leeds Overseas, the Manx-registered subsidiary of LEEDS PERMANENT BUILDING SOCIETY.

■ Donald Walker formerly head of global client services at NatWest Investment Management, becomes a director of BARING Asset Management's UK portfolio management team.

■ Philip Gregory becomes group finance director of *TULLETT & TOKYO Forex International* and will succeed David Lowe on his 1995 retirement.

Chadwick goes from Leeds Permanent

Chris Chadwick, commercial director of Leeds Permanent Building Society, has resigned from the society's board; he will leave formally at the end of January.

Chadwick, 42, has been one of three senior executives running the UK's fifth largest society since its previous chief executive, Mike Blackburn, left to run Halifax Building Society.

When the plans for a merger between Leeds Permanent and Halifax were announced last month, the other two members of the executive troika – Roger Boyes, finance director, and John *Miller, information* systems director – were both named as members of the combined board. Chadwick, right, was not.

His resignation was said to be for personal reasons Leeds Permanent was unable to say whether he would receive any severance pay.

Chadwick has been with the society since 1989, with a background in other areas of the

UK personal financial services sector. He was a founding director of Burton Group Financial Services, and has also worked for American Express. *Alison Smith*

BBC tempts Channel 4 executive

Caroline Thomson, Channel 4's head of corporate affairs, is to take on a powerful new job at BBC World Service.

The roles of the former deputy managing director David Witherow – who retired in September – and that of Anthony Rendell, controller of strategy and corporate affairs who retires next Easter, are being combined.

Thomson becomes the World Service's strategy and corporate affairs director, and will deputise for Sam Younger, recently appointed managing *director of the World Service.*

Thomson, who began her career as a BBC trainee in 1975 joins the World Service at a time when it is committed to launching new services, while its government grant is declining in real terms.

She worked on a range of BBC radio and television programmes, including Analysis and Panorama, before joining Channel 4 in 1984 as commissioning editor for finance and industry.

She said yesterday although it had been exciting working for Channel 4 "after 11 years it is time for a new challenge."

She is the daughter of Lord Thomson of Monifieth, former *chairman of the Independent* Broadcasting Authority. *Raymond Snoddy*

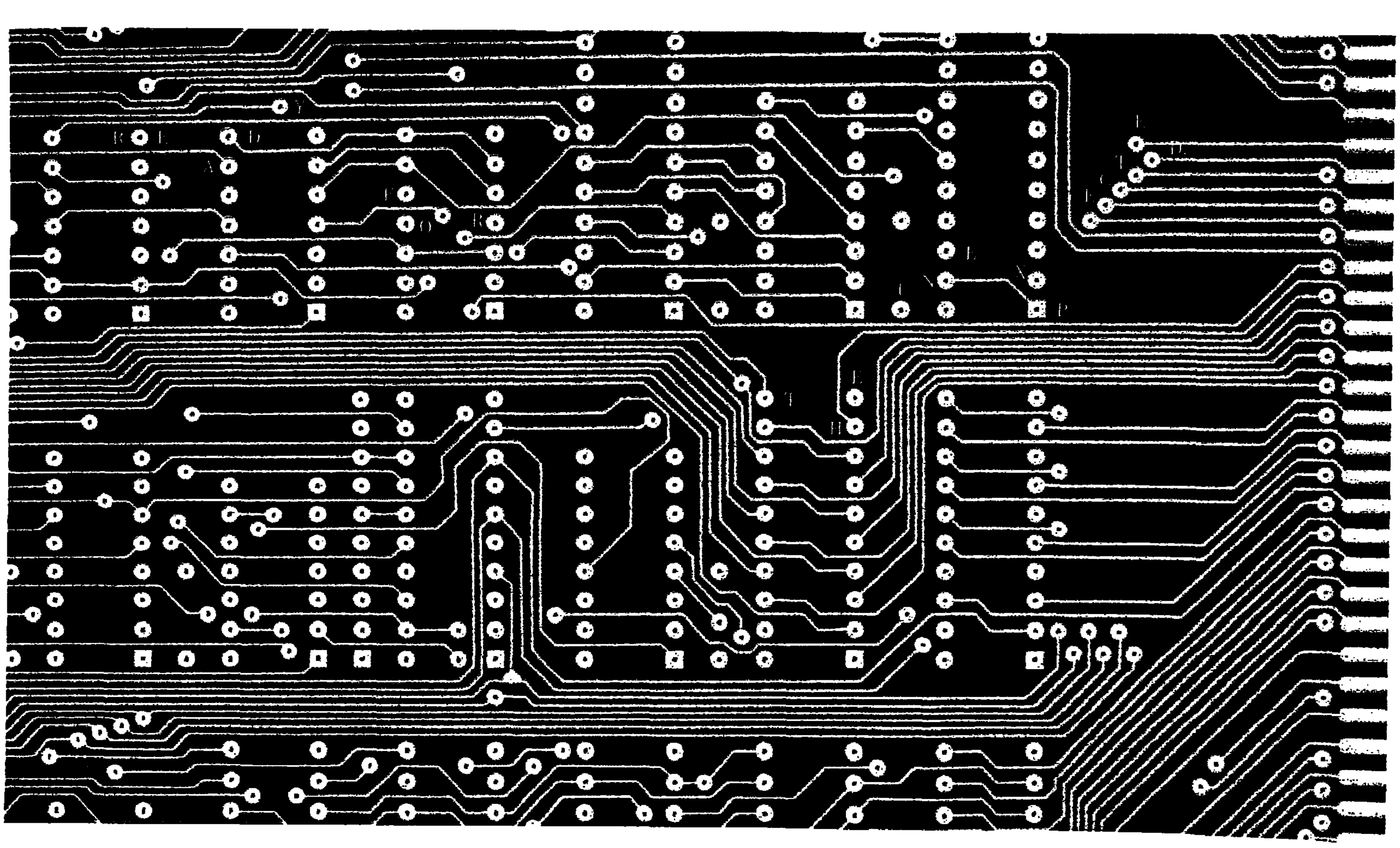
New chief executive for BACC

For the first time in 75 years, the British-American Chamber of Commerce (BACC) is to be run by an American. Daniel Bayer, below, a New York city official, becomes chief executive of the BACC's operations in London and New York.

Bayer, 46, a former Fulbright scholar with a Phd in mathematical logic and philosophy from Rockefeller University, takes over from Peter Felix. The BACC was set up to foster Anglo-US trade and investment; the job of chief executive

has traditionally been held by a British national based in New York. However, the organisation has become increasingly involved in two-way trade and investment between the US and Britain.

Bayer has been vice-president for economic development of the New York Chamber of *Commerce and Industry and* its affiliate the New York City partnership. *William Hall*



BUSINESS AND THE ENVIRONMENT

Packing for the future

Tired of hanging on to your old television packaging? Harrassed by all that expanded polystyrene encasing your new hi-fi? Perhaps the answer lies in recycling.

That is the conclusion of a study* by the Expanded Polystyrene Packaging Group, part of the British Plastics Federation. According to the report, prepared by Douglas McWilliams of the Centre for Economics and Business Research, half of all used EPS packaging will be reclaimed and about 30 per cent recycled by 2000.

EPS recycling is already increasing. Around 3,700 tonnes, representing 17 per cent of total UK consumption, will be recycled this year – a 50 per cent rise on 1993.

The report is bullish about the future. Used packaging, such as the expanded polystyrene encasing many new consumer durables, can be easily and cost-effectively recycled.

Provided the packaging is retrieved before being mixed with household rubbish, its potential ranges from recycling into new packaging to plastic stationery and coat-hangers or compact disc cases.

Even "contaminated" EPS packaging such as the vast quantities consumed annually by the fishing and nursery industries, can be harnessed as a fuel for generating electricity in incinerators. Although incineration is still in its infancy, EPS is attractive as its calorific value is higher than coal's.

However, there have been doubts recently over the material's environmental impact. Critics have claimed EPS is not biodegradable, is bleached using chlorines and even contains CFCs. Producers hotly deny such "misperceptions".

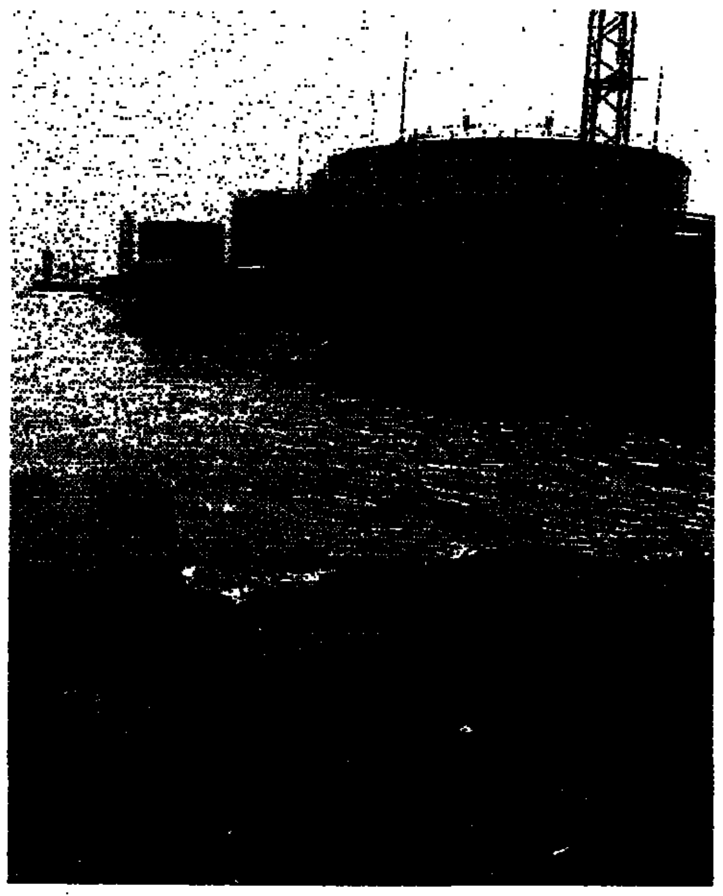
EPS is an increasingly popular packaging material. The UK alone produces almost 21,000 tonnes a year.

**The Prospects for Recycling EPS Packaging. British Plastics Federation, £25.*

Haig Simonian

Black Sea's dark future

The conflict between economy and ecology is coming to a head in Odessa, writes Matthew Kaminski



Polluted catch: only five species of fish remain of the 26 caught in the 1960s — James Hill

Arkadia beach on the Black Sea may have snow-white sand beloved by tourists, but it is strewn with rusty metal drums; sludge and algae are visible on the water.

Now, a row is brewing over sustainable development in a region so damaged by pollution that it is on the brink of ecological death.

After committing itself to a Black Sea clean-up, the Ukraine government has angered environmentalists with plans to build an oil terminal near Odessa, up the coast from Arkadia, to handle up to 40m tonnes of oil per year. The new terminal would help Ukraine reduce its dependence on Russia for supplies.

As ministers and parliamentarians bicker over the plan, President Leonid Kuchma last month gave his "categorical" support for the new terminal now awaiting approval from parliament.

The incensed green lobby argues that Kiev takes a cavalier approach to the environment and dangerously promotes large industrial projects, just as the Soviet Union did before Ukraine gained independence in 1991.

Valery Mikhailov, director of the Ukrainian Scientific Centre of Marine Ecology, says Ukraine has failed to carry out the necessary environmental impact study required by a declaration signed by all six Black Sea rim states. He adds that Ukraine cannot guard against oil spillage.

Opponents of the plan argue that oil terminal leaks and tankers bypassing weak regulation by dumping ballast water into the harbour would jeopardise the health of 800,000 people who visit Odessa each summer.

The United Nations notes that the "illegal discharge of ballast and bilge and accidental spills during loading and unloading" account for far more oil pollution than any land source.

"We should have beaches and resorts here," says Mikhailov. "They should put it somewhere else. It is a disaster for Odessa."

Environmentalists fear the threat to the ecosystem: it is on the Odessa bank that about 60 per cent of the sea's fish and 70 per cent of the biomass reproduce.

Flexing their new democratic muscle, the opponents have formed a committee to try to block the project. Odessa's city council also protested, by declaring the land could not be used, but it was overruled by the national parliament.

According to mayor Eduard Gurvits, the former commercial port city founded by Catherine the Great 200 years ago has to put industrial development first.

The situation in Ukraine is matched in Russia, Bulgaria, Romania, Georgia and Turkey, which this year approved a Black Sea Convention setting up the legal conventions for maritime pollution control but who all, except Turkey, must deal with the economic legacy of the Soviet Union's collapse.

"They all express the same kind of impotence," says Laurence Mee, who leads the Environmental Management and Protection Programme of the Black Sea in Istanbul. "You cannot do anything about the environment when you have an economy that cannot afford it."

Among the world's ecological problems, many of which are in the former Soviet sphere, the Black Sea's are formidable.

Industrial waste from 17 Black Sea basin countries fed in by several large rivers, especially the Danube and the Dnieper, has killed fishing stock and devastated animal and plant life. Oil, toxic waste and ship ballast water emitted around the rim compounds the Black Sea's lack of a good drainage system to bring in fresh water. Incoming nutrients, as well as poisons, are killing off species, such as oysters and clams, that would help clean the sea.

Yuri Kastenko, Ukraine's environment minister, defends Ukraine's record, pointing to a $9m (£5.4m) effort to clean up the Dnieper river. That is not enough, critics say.

The Sea of Azov, just off the Black Sea, is even more polluted by steel, coal and other industries of the Ukraine's Donbass region.

But as environmental enforcement has failed to improve under independence, local concern is now centring on new oil projects, such as at Odessa, but also an off-shore drilling exploration near the Crimean peninsula by JKX Oil and Gas, a UK-based exploration company working mainly in the former Soviet Union.

The UN deems offshore drilling a big potential hazard because of the "risk of blow-outs, fractured undersea pipelines, and other accidental oil spills" that might further contaminate the sea. This anxiety applies to the new project despite a relatively good aerial monitoring systems used in Ukraine.

Hamish Curren, general manager of JKX Oil and Gas, concedes that "the consequences of a major accident are dire, but the chances of that happening are possibly overstated". He adds that bad experiences of developments under the former Soviet Union, typically drilling in the Caspian Sea, are misleading. "The philosophy of that kind of operation is very different from what western operators apply."

Included in the Black Sea debate have been efforts to substitute tourism for industry, since both the oil projects are so close to traditional resorts in Crimea and Odessa. During the summer Odessa sponsored a conference on developing tourism. Ecotec, a UK consultancy, found the Black Sea coast "possesses all the key geographic resources including good climate, an excellent coastline and landscape features" to expand tourism. But the poor environment was a problem.

Frank Joyce, chairman of Ecotec, has observed that the local administration must do a better job of tourism planning and coastal zone management along Ukraine's 2,500km coast.

The other industry hurt by the environment is fishing. Only five species of fish remain of the 26 caught in the 1960s when the Black Sea was the world's more fecund source. Total catch dropped from 900,000 tonnes in 1986 to 100,000 tonnes for all six Black Sea rim countries in 1992.

Altogether, the World Bank estimates the cost in bad health, poor fishing and reduced tourism at around $1bn per year.

But as Ukraine moves ahead with the oil terminal, the ecologists throw up their hands. Mikhailov reckons the clean-up would take up to "two or three times Ukraine's national income".

Sugar cane is being used for energy in São Paulo says Patrick McCurry

Sweet source of power

Electricity produced on vast sugar cane plantations in the countryside of São Paulo, Brazil's wealthiest and most industrialised state, could help relieve a predicted energy shortage.

Distilleries of fuel alcohol made from sugar have been generating their own energy for years by burning the crushed cane in large boilers which produce steam to power electricity turbines. Today an increasing number are seeking to sell their surplus energy to Brazil's electricity grid.

The state of São Paulo produces more than half Brazil's harvest of around 230m tonnes of sugar cane. Most of the cane is used to produce fuel alcohol for cars under a government alternative energy programme launched in the 1970s.

In recent years distilleries have been selling small amounts of excess energy to distributors, or "co-generating", and during this year's harvest distilleries have begun selling energy to a distributor through long-term contracts. Companhia Paulista de Força e Luz, which operates in the interior of São Paulo state, has been the pioneering distributor in co-generation.

Eduardo Gonçalves, CPFL chairman, says that an advantage of sugar cane energy is that the harvest - May to November - occurs when rivers, and São Paulo's hydroelectric capacity, are at their lowest. The state generates 60 per cent of its needs from hydro power and imports 40 per cent.

But São Paulo faces increasing energy problems because there is less potential for increasing hydroelectric capacity. Nelson Garcez, a state energy official, believes the state will have to import 70 per cent of its needs within 15 years unless non-hydro energy sources are developed.

Gonçalves says that while the co-generation programme is relatively small it has important potential: "There is a lot of talk about using bio-mass for energy in Brazil, but this is the first major project under way."

Two leading alcohol distilleries began supplying energy earlier this year to CPFL under 10-year contracts. A further eight have signed one-year contracts.

One of the long-term contracts is with Vale do Rosário distillery, which crushes 18,000 tonnes of cane a day during the harvest. It supplies the distributor with a capacity of 4MW, enough to power a small shopping centre.

Cicero Junqueira Franco, director of the distillery, says he intends to increase generating capacity by installing higher-pressure boilers and more sophisticated turbines. To increase capacity by 5MW would cost around $4m (£2.4m).

But one obstacle to further development, he says, is uncertainty about the government's pricing policy. A government-linked organisation regulates the prices that distributors such as CPFL can pay for their electricity. The price for this year was $41 per megawatt hour - low by international standards, but enough to persuade the two distilleries to sign up long-term.

After transport costs CPFL is paying virtually the same price to sugar distilleries as to import electricity from the huge Itaipú hydro plant on the Brazil-Paraguay border, although energy from the state's hydro plants is currently about 25 per cent cheaper.

That price, however, is likely to increase because new hydro plants are in more remote - and therefore costly - locations.

Many believe the trend in Brazil will move towards more flexibility on pricing, which could stimulate co-generation.

Ademar Balbo, director of Galo Bravo distillery, says he hopes to negotiate a supply contract with CPFL after investing $1m in a more powerful generator. This will increase the distillery's capacity to 9MW from 6MW, leaving a surplus of 3MW.

"The prices that are being paid by the distributor are not that good at the moment but it is a long-term investment. Brazil is growing and energy prices are likely to go up," he says.

MANAGEMENT

Rupert Morris has unearthed an ancient manuscript which could have changed the course of history

When King Herod called in the PR men

Gadarene Design Group
Galilee

King Herod
The Palace
Holy Land
Judea

December

Your Majesty, I am delighted that you have chosen to approach Gadarene Design with this intriguing proposition – to market your revolutionary population control programme. I have read our marketing director's preliminary report following his meeting with you, and this is how I assess the current situation.

Background. This brief comes to us following the failure of Magi Marketing to adhere to the terms of their contract. While we normally have the greatest respect for our competitors, we must make a brief observation here.

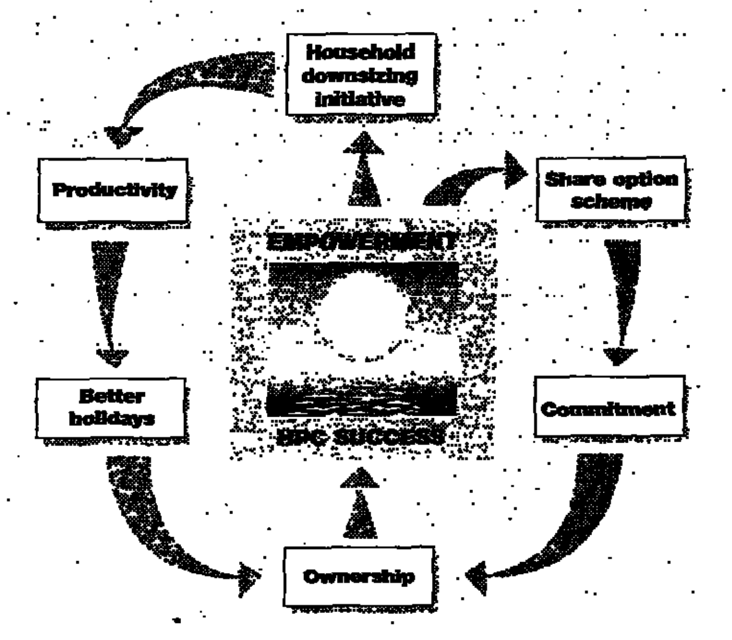
It is one thing to follow your star, but for their three representatives to go missing en route for Bethlehem, and then send you a bill for the "necessary purchase of gold, frankincense and myrrh" as gifts for the inhabitants of some obscure stable is thoroughly unprofessional.

I can well understand that your faith in the Judean public relations industry has been badly shaken by this experience. We shall do our utmost to restore that faith, and I assure you we will only invoice you for fees and expenses notified and agreed in advance.

The project. We understand that the Prophets Forecasting Centre has foretold the birth of a saviour to the people of Israel. It has further given notice that this "saviour" will be a first-born child. Clearly this is a major cause of concern, given the number of impressionable disciples wandering round the region.

Your instinct to deal with the problem at the root, as it were, is surely right, and we wholeheartedly endorse your decision to restructure Herod Holdings and create a new division – Herod Population Control. However, the words "population control" are open to mis-interpretation, and we would advise shortening the name to HPC Ltd.

HPC Ltd – the proactive approach



Vision statement. We now come to your mission statement. No one could disagree with your admirably worded opening: "HPC's goal is to be a world leader in the administration of people, while taking every opportunity to empower managers to take initiatives at local level."

When you go on to say that "every area manager should ensure the slaughter, without mercy, of the first-born child of every family," we feel uneasy. Surely "slaughter" is an inappropriate word in this context.

What we are proposing is not slaughter, but the limited downsizing of households – a temporary measure in the interests of national security. It is, moreover, a measure with significant benefits for the population as a whole:

- It will reduce the nocturnal disruption to individual families, and thereby maximise the productivity of the workforce.
- It will reduce the weekly budget of the average household, giving them more shekels to spend, thereby optimising the prospects for consumer recovery.

This brief comes to us following the failure of Magi Marketing to adhere to their contract

We would accordingly round off the vision statement as follows: "Our employees will prevail over the primary issue at the customer interface, thereby optimising the benefits for the community as a whole."

Corporate logo. As graphic designers, we attach great importance to the corporate logo, and here we feel that a radical rethink is required. The current logo, the bloody sword, is undeniably impressive – graphic indeed – but open to misrepresentation.

We feel that HPC should concentrate less on its methods, and more on the benefits that will follow from what is essentially a re-engineering process. With the inevitable increased productivity levels, resurgence in the economy and increased leisure time, more people will be able to enjoy holidays by the Sea of Galilee. That is why we have chosen the logo of a golden orb against a blue background – representing the warm sun in a cloudless sky over a still sea.

Share option scheme. We feel there is a need to incentivise not only the administrators, but also the people of Israel themselves. To encourage families to join the household downsizing scheme, we should consider giving them something in return. If we were to give every man, woman and child (excluding the first-born) a share in HPC, it would help convey to them a sense of ownership and commitment (see diagram).

Conclusions. This is one of the most challenging assignments we have tackled, but we are confident that on the basis of the strategy we have outlined, we can market HPC both to its own employees and to the wider public, while achieving all your personal goals.

Coincidentally, we have just rewritten our own statement of vision and values. It now reads as follows: "Our commitment is to consistently exceed expectations at the customer interface, regardless of external considerations, which might include the termination of individual life-cycles." We feel this is so much more customer-friendly than our old motto: "We'll help you get away with murder."

Please take our advice, your majesty. If you do not, God only knows what will happen.

Kind regards etc etc.

Multimedia comes to the business school

Interactive teaching methods are about to revolutionise executive education, says George Bickerstaffe

Like everything else, management teaching is about to be invaded by the information superhighway, multimedia and CD-Rom. Many business schools, including Harvard, are now working on the application of these technologies to case studies and business simulations.

The "case method" – using narratives of real situations to teach academic principles – dates back to Harvard Law School (using summaries of court cases, hence the name) in 1870. Harvard Business School picked up the idea in the 1920s.

Since then it has become probably the most widely used method of management teaching. It has also remained pretty static. Generations of business school students have ploughed through pages of text, tables and graphs to "prepare" a case for the following day's class discussion.

Multimedia and interactive cases could well change all that.

Among the most advanced business schools in this area is Insead, based at Fontainebleau, near Paris. It developed its first multimedia cases in 1992 and now uses several, including cases on Minitel and Swatch.

According to Albert Angehrn, professor of information systems at Insead and the moving force behind the school's involvement in multimedia, the benefits of technology are significant. He reckons that CD-Rom drives linked to colour PCs (Insead's favoured delivery system) can provide several hours of video and animation, thousands of photographs, pages of text and graphics and charts.

And, he says: "It is not as difficult to produce the cases as people think. Given the basic information on a company we can produce an interactive case within two weeks. And it is not enormously expensive."

Insead based its first multimedia cases on the idea of an "electronic book" that allowed students to browse, mark, annotate and search for specific topics or people in the text.

They also allowed direct access to related images and videos – the real difference that multimedia brings. For example, the Swatch case allows students to compare North American and European advertising approaches by watching video clips, which appear in a small "window" on the computer screen. Students can also watch the steps involved in product development and see a short interview with the product manager.

Newer cases have become increasingly sophisticated and less structured. Angehrn argues that the editing implicit in writing down a case is being removed. Students are now able to look at a company unbiased and with as much information as they want. They can access real financial data on a company via spreadsheets and carry out "what-if" analyses.

Harvard: superhighway invasion

In one marketing case they can evaluate advertisements and overall campaigns by changing the style. The computer will suggest likely results. In other words, they approach the case like real-life managers.

Angehrn and colleagues at Insead believe there is much further to go. They have developed a pedagogical model, called Business Navigator, to put the future of this type of highly interactive learning on a firmer basis.

In what they call a "virtual interactive business environment", they see students being able to "navigate" around a company's physical environment and through its organisational network (people) and informational network (documents, files and so on).

Angehrn believes that as the technology develops and improves it will have a fundamental effect. The implications of virtual reality in learning situations, for example, are only beginning to become clear.

"There are really no limits to what we can do," says Angehrn. He has already designed cases and simulations where participants are prompted by on-screen "stimulus agents", who suggest they attend meetings, take action or who provide information.

Angehrn claims that students find interactive cases a participative way of learning and one that promotes retention. "They get to know the companies and the issues much better – a video interview is far more alive than a printed quote," he says. "And because it is interactive and they can 'move' around the case they get a real experience of what people inside the company actually do."

There are, however, plenty of implications for business schools and management academics that may not be positive or easy to accept.

Angehrn says they will have to think about how to combine three sets of learning – traditional face-to-face sessions in the classroom, self-learning, perhaps via by a computer, and group work or networking via computers.

"We have been very good at designing classroom sessions," he says. "Now we have to think about designing other educational forums where people are learning together but not in the same place or even at the same time."

ARTS

Television/**Christopher Dunkley**

For dedicated followers of fashion

Investors are obviously keen on the prospects for the new television transmission systems: the flotation last week of BSkyB, Britain's leading satellite operation, was over-subscribed. The company (in which Pearson, owner of the Financial Times, has a stake) was, until quite recently, losing large sums of money and now has a market value of £4.4bn. Many people, it seems, have faith in the profitability of satellite systems, even if their share of the business remains relatively small. That confidence rests, presumably, on the realisation that subscription, and eventually pay-per-view, services can make a lot of money at the margins even if satellite and cable operators attract only a minority of the population.

So far satellite and cable remain irrelevant to the great majority of British viewers. Most homes continue to have access only to the four terrestrial networks. Between them those four (BBC1, BBC2, ITV and Channel 4) conceded only one per cent more of their audience share to the new boys in 1994, slipping from a 94 per cent share to 93 per cent, just as they slipped from 95 to 94 per cent in 1993. Thus all the dozens of satellite and cable channels combined are still managing to win only a seven per cent share of the audience. In terms of programme influence the small size of that fraction could be unimportant if the cable and satellite companies were innovators or setters of benchmarks; Le Gavroche sells far fewer lunches than McDonald's but there seems little doubt about which is gastronomically more interesting.

In television, however the opposite is true: the smaller, "specialist" suppliers, satellite and cable, provide programmes which (leaving aside sport and movies, and considering the material actually made by television) are cheap, derivative, and inferior to what you find on the terrestrial networks, albeit arranged differently. Indeed, vast quantities of satellite time are filled with old programmes bought from the stockpiles of the terrestrials. There is just one exception, one satellite network which wields an influence far greater than its viewing figures in Britain would suggest: the music network, Music Television. MTV has become for the 1990s what the colour supplement was to the 1960s, the setter of trends and arbiter of fashions. If you see something new and bizarre in street culture, pop music, or yoof television, odds are that it turned up first on MTV. Moreover the influence is not merely on teenagers: check any office in the media industries – advertising, facilities houses, independent television companies – where a television is kept on all day and you will find that most are tuned to MTV.

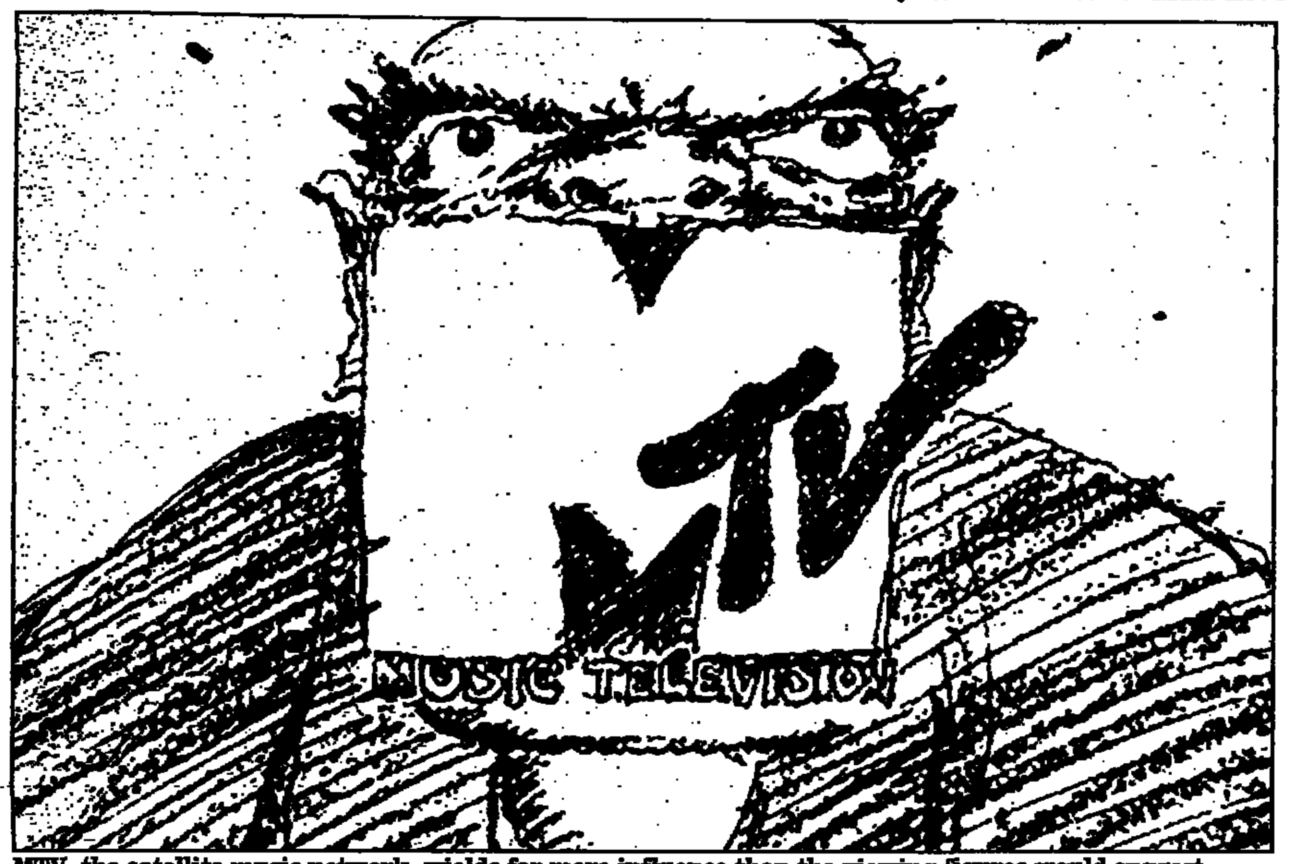
It is unlike any other network on television or radio. Other networks strain to ensure that you know when one programme ends and another begins; loud signature tunes call you from the kitchen, expensive credit sequences make urgent visual signals to mark the junctions. At MTV, while there is no lack of expertise in the graphics department (in fact their logos are some of the best anywhere, as good as those of Globo Brazil, world beaters in this category in the 1980s – watching 15 minutes of MTV logos would be more entertaining than most "entertainment" programmes) no effort is made to highlight the junctions. Most slide by invisibly because MTV consists very largely of pop videos and these long ago became the dominant influence in the world of commercials. The two forms, and their directors, are now so indistinguishable that on MTV it is often difficult to know which you are viewing. So the junctions are imperceptible. Watching Kylie Minogue's "Confide In Me" it is hard to believe it is not a commercial ... and in a sense, of course, that is just what it is.

All other networks, whatever their specialisation, are now subject to the hegemony of the news; you cannot escape it even on Classic FM or Radio 3, let alone Radio 1. But at MTV "The News" often contains just three or four items, such as singer George Michael's court case against Sony, the renaissance of the vinyl LP, and Garth Brooks' second album selling 10m. By-election defeats do not darken MTV's horizon. Others talk about the ideal of European unity but MTV got there ages ago: not only do they broadcast right across Europe (MTV Europe being a separate outfit from the American MTV) they casually run commercials in German for their British audience, and the presenters must be the most polyglot anywhere in television. Most speak English with Dutch, German or Scandinavian accents. The way in which they all, male and female, ogle and flirt with the cameras and hence the viewers (not the easiest trick to manage without looking naff in the unromantic confines of a studio, yet the MTV people almost always achieve it) has had a clear, wide, and still growing effect on habits in terrestrial television.

Of course much of the content is enough to drive an adult up the wall. Watch at any time of the day or night for more than 25 minutes or so and you will almost certainly be subjected to "rap", the monotonous, unmelodic, chanting of doggerel by charmless young people in baseball caps, often worn back to front. All stage concerts now seem to look identical, with lighting systems linked via computer to the amplifiers (I assume) so that the lighting endlessly flickers to the beat. Moreover, refreshing though it is to come across some modern monochrome photography on television, the fashion for black and white videos has become over dominant. Most irritating of all is the inability of directors – whether of concert or video – to hold a shot for more than (literally) a split second. The frequent assertion that dislike for this sort of frenetic cutting is merely a reflection of age seems odd: surely young people want to get a proper look at the famous bottoms of their idols, whether Madonna or Prince.

There are countervailing strengths and attractions. Screen dancing is now more widespread, expert and exciting than at any time since the great days of Astaire and Kelly, thanks almost entirely to MTV, though admittedly there is also much that is inept. The combination of music and image in pop videos, while it can be pretentious, can also be beautiful and fascinating. This is no small thing in a medium which – amazingly, since it relies so heavily on pictures – is usually so dreadfully inferior to cinema in its use of images. And if you doubt that the English have a particular flair for this odd four-minute form of multi-medium artistry, spend a couple of hours watching MTV and pay particular attention to the occasional French effort. They are either ponderously sexy as in "Tandem" by Vanessa Paradis, or sub *Magic Roundabout* as in "Mangez Moi" by Billy Ze Kick Et Les Gamins En Folie.

Many grown ups will feel they have had enough of MTV after only a few minutes, but it holds the attention of children, from the age of about eight upwards, like no other network. And that is the point: watching MTV is nothing like watching BBC1, BBC2, ITV or Channel 4, and there are precious few satellite or cable services which can say the same.



MTV, the satellite music network, wields far more influence than the viewing figures would suggest

This 'Nutcracker' has true magic

Clement Crisp, to his surprise, enjoys a schools matinée in Birmingham

The time is 1.59 p.m. "Only a minute to go, Miss" says an urgent infant voice to its teacher. The house-lights go down. A buzz and twitter as of a million birds fills the theatre. The first notes of the overture – not the most boisterous of musical beginnings – and the house is hushed. The Birmingham Royal Ballet is giving a schools matinee in its home theatre on Thursday afternoon, and the red and gold disease, that most welcome of childhood ailments, infects the whole assembly, as the young succumb to the magic of the theatre.

And, surrounded by an infant horde to whet the appetite of a Herod, I enjoyed *The Nutcracker* – which I had scarcely expected to do under these circumstances – and equally enjoyed the children's response to the production. There could be no better introduction for newcomers to ballet, or the theatre. Sir Peter Wright's staging is a joy. It has true magic, lively action, clever (but not too clever) ideas – Clara as a young dancer; Drosselmeyer as a conjuror – and splendid designs by John Macfarlane that provide their own magic and excitement. Best of all this staging conveys a sense of wonder, about the tale itself and about the fact of being in a theatre.

This is in part owed to Wright's feeling for the score. At its finest, and it is at its finest throughout Act 1 and much of Act 2, Tchaikovsky's genius finds sublime ways to suggest the enchantments of childhood and the nostalgia an adult feels for them. There is tenderness and sadness in the music, which speak very clearly in the adagio that precedes the Snow scene, and in the great pas de deux. The party and the mouse-battle find the composer writing at his most brilliant, and underlying the score is a thread of melancholy. Wright shows us these matters without undue emphasis; like the music, his staging touches lightly on profound feeling.

The score sounded well with BRB's orchestra under Anthony Twiner, and the young listened and watched with attention and a huge responsiveness. They gasped at Joseph Cipolla's sleight of hand as his Drosselmeyer pulled off trick after trick – it is a fine reading. They thrilled on in-drawn breath to the grand transformation of the Christmas tree. They were held by the mouse-battle (here an elite corps of super-rats fighting a losing campaign). They cheered each number on that *via crucis* of dance tedium which is the second act divertissement, laughing at the Chinese dance (the best thing one can do to this ancient bore) and clapping along with the trepak – a Russian dance – maintaining strict tempo. The production, which is an unfailing delight even to as hardened a *Nutcracker*-lag as I now am, puts not a foot wrong for newcomers. And the tots gave fullest voice in appreciation of Sandra Madgwick and Peter Boal, the Sugar Plum Fairy and her Prince.

Miss Madgwick was delightful. The dance was serene, her manner was radiant, the delicious ring of the celeste was deliciously matched in her steps. Peter Boal, a guest from New York City Ballet, is a true danseur noble, and he brought an easy dignity and impeccable technical manners – sure phrasing; clean bravura – to the demands of variation and coda.

Everything about the afternoon was at its best, and the children told the dancers just how well-worthwhile such matinees are. BRB's artists play the piece with great warmth and charm. *The Nutcracker* should be a part of every child's memories: how good that Thursday's audience will have such a golden performance to treasure.

Birmingham Royal Ballet brings the staging to the London Coliseum from December 22 until January 7.

A most splendid Toad: Patrick Barlow in the National revival

Theatre/**Alastair Macaulay**

Bennett's 'Wind in the Willows' returns

The Alan Bennett dramatisation of *The Wind in the Willows* has been a huge popular draw for the National Theatre at Christmas time since its widely-acclaimed premiere four years ago. Now, returning to it for the first time since that premiere, I love again much of what I had loved then, and find new things to love too. But, as so often happens in life on returning to scenes of bygone delight, I am startled to realise how much both it and I have changed.

My strongest memory of the Nicholas Hytner production was of Mark Thompson's vividly evocative decor, with its miraculous changes of scene. This is still marvellous. By the time – about halfway through Act One – the Wild Wood turns on its axis to reveal Badger's front door (slanted in a shelf that suddenly appears in the wood's floor) and *then* turns again to take us down into his home (an old-style resort of quiet distinction), I am as entranced to re-see this changeable spectacle as any novice in the audience.

Of the features that have joined the production since it was new, the most splendid is the Toad of Patrick Barlow. He is in every way larger than was Griff Rhys-Jones; at times he reminds me of Dame Edna, at times of Billy Bunter. He is so robust and so naughty that he seems at times to be adding lines to the text; and it is a great compliment to him that in almost every case I found afterwards the lines were actually Bennett's. "Me dress up as a washerwoman? ... Couldn't I be a lady novelist?" Later, as a washerwoman: "Shirts are to me, Sir, what daffodils is to Wordsworth". I had not known just how funny Toad's pretend death-scene ("Give me the sun!") is. And oh! the way Barlow says, when Toad on trial is asked to renounce motor-cars, "Never" – or rather "Nev-ah" like Winston Churchill defying Hitler. A Churchillian Toad? It heightens the central joke of Bennett's adaptation, which is to point up the little-Englander there'll-always-be-a-riverbank kernel of the original Kenneth Grahame story.

But the production – which has been recreated by Edward Kemp – has changed in other ways too. It feels more child-oriented, and closer to pantomime. In 1990, there was some attempt to capture the moving chapter in Grahame which most closely addresses the numinous: the Piper at the Gates of Dawn. I had hoped that this scene would have been more successfully realised; but now it has now been simply dropped.

And, like every childhood locale revisited, the world of *The Wind in the Willows* seems, onstage, smaller and less innocent to me now. Not unlike the Guy Burgess he once so memorably dramatised – Burgess who wanted to retain the charm of English life though having betrayed England – Bennett wants duplicitously to cash in on the nursery charm of Grahame's tale *and* at the same time to mock the English class pretensions on which it is based. This method of lampooning Englishness and cuddling it at the same time is typical of Bennett, of course; he was at it as far back as *Forty Years On*. In about 80 per cent of *The Wind in the Willows* it is bliss to see how well he can have his cake and eat it. But I find the other 20 per cent of the play both irritating and depressing.

It is good to renew acquaintance with Michael Bryant's grave Badger. And it is just as good to make the new acquaintance of Jasper Britton's spivvy chief Weasel, of Crispin Letts's tender Mole, and to find the unsinkable Betty Marsden as Washerwoman and Bargewoman. Michael Jayston, though slightly too subdued and solemn, is a properly Home Counties old-school-tie Rat. As for Barry Stanton, he very nearly persuades me that Albert the horse is the best role in the whole piece.

In repertory at the Olivier Theatre

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Philippe Herreweghe: with the Freiberger Barockorchestra and the Collegium Vocale Gent conducts Bach at 8.15 pm; Dec 22

■ BERLIN

CONCERTS
Philharmonie Tel: (030) 2548 8132
● Berlin Philharmonic Orchestra: conducted by Sir Yehudi Menuhin and with soloist Leonid Gorokhov plays Mozart, Tchaikovsky and Schubert at 8 pm; Dec 21, 30, 31 (5.15 pm)
OPERA/BALLET
Deutsche Oper Tel:(030) 3 41 92 49
● Siegfried: by Wagner. Conductor Horst Stein, production by Götz Friedrich at 5.30 pm; Dec 27
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● Die Zauberflöte: by Mozart. Conductor Daniel Berenboim, production by August Everding at 7 pm; Dec 23, 25, 28; Jan 1
● The Sleeping Beauty: by Tchaikovsky. Conducted by Stolze, choreographed by Nureyev at 7 pm; Dec 26, 27

■ FRANKFURT

GALLERIES
Schirn Kunsthalle Tel: (069) 29 98 82 11
● Asger Jorn - Retrospective: 167 works by the Danish painter. The fifth chapter in a series of presentations of postwar European artists.; to Feb 12

■ LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● LSO New Year Viennese Concerts: conducted by John Georgiadis, the music of Strauss in this traditional celebration of the New Year at 7.30 pm; Dec 31; Jan 1, 2
● Royal Philharmonic Orchestra: Christmas concert with conductor Owain Arwel Hughes at 7.30 pm; Dec 26
Festival Hall Tel: (071) 928 8800
● Johann Strauss Gala: the Johann Strauss Orchestra with director John Bradbury, soprano Marilyn Hill-Smith and the Johan Strauss Dancers plays a programme of music by Strauss. First performance at 3.15 pm, then at 7.30 pm; Jan 1
OPERA/BALLET
Festival Hall Tel: (071) 928 8800
● The Nutcracker: by Tchaikovsky. English National Ballet and its Orchestra choreographed by Ben Stevenson at 7.30 pm; from Dec 21 to Jan 2 (Not Sun)
Royal Opera House Tel: 071 340 4000
● Cinderella: music by Prokofiev. Created by Fredrick Ashton in 1948, this was the first full-length ballet by an English choreographer at 7.30 pm; Dec 23 (2 pm) , 26 (2 pm) , 27, 30, 31
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 21, 22, 28
THEATRE
Barbican Tel: (071) 638 8891
● New England: World premiere of Richard Nelson's new play. No performance 12-15th Dec., otherwise at 7.15 pm; to Dec 29 (Not Sun)
National, Lyttelton Tel: (071) 928 2252
● Out of a House Walked a Man: by Daniil Kharms. A Royal National Theatre and Theatre de Complicite co-production of a collection of musical scenes by the Russian absurdist writer at 7.30 pm; Dec 23, 26, 27
● The Children's Hour: by Lillian Hellman, directed by Howard Davies at 7.30 pm; Dec 28, 29 (2.15 pm) , 30, 31 (2.15 pm) ; Jan 2
Queen Elizabeth Hall Tel: (071) 928 8800
● Cinderella: by Rossini. The Music Theatre London present this new translation by conductor and musical arranger Tony Britten, and director Nicholas Broadhurst at 7.15 pm; from Dec 27 to Jan 3 (Not Sun)
● Rossini's Cinderella: new translation by conductor Tony Britten and director Nicolas Broadhurst at 7.15 pm; Jan 2 (2.15 pm)
Royal Court Tel: (071) 730 1745/ 2554
● The Libertine: by Stephen Jeffreys, directed by Max Stafford-Clark. Comedy based on the works of the 2nd Earl of Rochester at 7.30 pm; to Feb 4

■ NEW YORK

GALLERIES
Whitney Museum
● Franz Kline: Black and White 1950-61: major Abstract Expressionist works from the last decade of the artist's life; to Mar 12
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Die Fledermaus: by J. Strauss. Sung in German with English dialogue at 8 pm; Dec 22, 29, 31
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 24 (1.30 pm)
● L' Elisir d' Amore: by Donizetti. Produced by John Copely, conducted by Edoardo Müller at 8 pm; Jan 2
● Madama Butterfly: by Puccini at 8 pm; Dec 21, 27, 30
● Peter Grimes: by Britten. English at 8 pm; Dec 23, 28, 31
New York State Theater Tel: (212) 870 5570
● The Nutcracker: by Tchaikovsky, performed by the NY City Ballet. Tue-Thu 6pm. Fri 8 pm. Ring for other times and matinees; to Dec 31 (Not Mon)
THEATRE
Manhattan Theatre Club Tel: (212) 581 1212
● Love! Valour! Compassion!: latest play by Terence McNally (of Kiss of the Spiderwoman fame), directed by Joe Mantello. Sun. performance at 7pm otherwise at 8 pm; to Jan 1 (Not Mon)
New York State Theater Tel: (212) 870 5570
● Slavs!: Thinking About the Long Standing Problems of Virtue and Happiness. Tony Kushner's latest work directed by Lisa Peterson at 8 pm; (Not Mon)
Richard Rodgers Theatre Tel: (212) 307 4100
● A Christmas Carol: engaging one man show of the classic with Patrick Stewart at 8 pm; to Jan 8
Vineyard Theatre Tel: (212) 353 3874
● American Dreaming: by Chiori Miyagawa, directed by Michael Mayer. The story of a Japanese-American mixed marriage with an eclectic mixture of classical and contemporary music from East and West at 8 pm; to Aug 1 (Not Sun)

■ PARIS

GALLERIES
Grand Palais Tel: (1) 44 13 17 17
● Poussin: 400th anniversary retrospective; to Jan 2
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● Christina Hoyos: Flamenco choreographed by Hoyos, Marin and Galia, music by Paco Arrigas at 8.30 pm; from Dec 22 to Jan 7
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● La Fontaine de Bakchisaraï: ballet by the Kirov company, St. Petersberg at 8.30 pm; Dec 21
● Nutcracker: Tchaikovsky's ballet performed by the Kirov ballet company, St. Petersberg at 8.30 pm; Dec 22, 23, 25, 26, 27, 28, 29, 30, 31
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Swan Lake: by Tchaikovsky. Choreographed and produced by Rudolf Nureyev. Conducted by Vello Pähn/Ermanno Florio at 7.30 pm; to Dec 31 (Not Sun)

■ ROME

OPERA/BALLET
Teatro Dell' Opera Tel: (06) 481601
● Cronache Italiane: ballet in two parts based on work by Stendhal at 7 pm; Dec 21, 22, 23

■ WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● New Year's Eve at the Kennedy Center: Members of the National Symphony Orchestra perform popular tunes and waltzes at 9 pm; Dec 31
GALLERIES
National Gallery Tel: (202) 737 4215
● Italian Renaissance Architecture: Brunelleschi, Sangallo, Michelangelo, the Cathedrals of Florence, Pavia and St. Peter's; to Mar 19
OPERA/BALLET
Washington Opera Tel: (202) 416 7800
● The Bartered Bride: by Smetana. Conducted by Heinz Fricke. In English at 7 pm; Dec 31; Jan 2
THEATRE
Olney Tel: (703) 924 3400
● Cinderella: Rogers and Hammerstein musical version of the classic fairytale, directed by Mark Waldrop at 7.30 pm; to Dec 31
Shakespeare Tel: (202) 393 2700
● School for Scandal: by Sheridan. Directed by Joe Dowling at 8 pm; to Jan 7

WORLD SERVICE

BBC for Europe can be received in western Europe on Medium Wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Edward Mortimer

A very Bosnian plight

New nations still have to prove themselves in trial by battle

An anniversary passed last week with little notice and less celebration. On December 16, 1991, the member states of the European Community (the European Union did not yet exist) agreed on criteria by which requests for recognition from new states would be judged. Everyone knew that these would be used to accord recognition to Croatia and Slovenia, because that was what the Germans wanted. But they were supposed to be applied to other former constituent republics of the Yugoslav federation as well, and to those of the Soviet Union which was also breaking up just then.

Recognition of new states in former Yugoslavia was hotly debated, because the Serbs opposed it. Recognition of the ex-Soviet republics, by contrast, was uncontroversial, as by then Russia was pushing for it. Little attention was paid to the fact that Russia was itself a federation. There was no debate on the desirability of applying the same principles to constituent republics of *that* federation, should any request recognition.

Probably few of the ministers who set the criteria had heard of Chechnya, let alone knew it had declared its independence six weeks earlier. If they did know, their position was what it has remained: Chechnya was not their business. It was an internal Russian matter, though one they hoped would be solved without violence. The borders of the new states should remain as they had been within the old federations of Yugoslavia and the Soviet Union, unless changed by mutual agreement.

If someone had asked why what applied to one federation should not apply to another, the ministers would perhaps have said that Russia was not a "real" federation. Yet the Soviet Union had not been very "real", either. In fact it had been a highly centralised state, ruled from Moscow by a single communist party.

That party had decided quite arbitrarily to give some regions the status of Soviet republics, nominally equal to Russia, while making others mere "autonomous republics" or "autonomous provinces" within Russia, or within one of the other Soviet republics. (Thus the autonomous republic of Abkhazia and province of South Ossetia found themselves in Georgia, which abolished their autonomy when it achieved its own sovereignty.)

Equally arbitrary were the boundaries of these various units. The peoples of the north Caucasus, in particular, were divided, reshuffled, deported and repatriated at the whim of Stalin and his successors. All this is very clearly and carefully explained in an extraordinarily well-timed report published last week by the Minority Rights Group*; and

Probably few EU leaders who set criteria for recognising states knew of Chechnya

described in a livelier, more impressionistic way by Suzanne Goldenberg in her book *Pride of Small Nations* (Zed Books, £14.95pb, £39.95hb).

Some were given territorial units, some not; sometimes two peoples with unrelated languages were lumped together. Seldom did the "titular nationality" form a majority of the inhabitants in the territory named after it. Several peoples were deported en masse to central Asia during the second world war, then allowed to return years later, giving rise to vicious territorial disputes.

"It is of paramount importance," say the MRG authors piously, "for the European and international community not to neglect the needs of the region and its peoples." Some hope! Western leaders find it simpler to close their eyes and hope Yeltsin gets on with it.

Many of them were not sure even in 1991 that recognising new states was such a good idea, and others have regretted it. Recognition may have helped bring about a ceasefire in Croatia, but it led more or less directly to war in Bosnia. It has certainly not prevented bloodshed all along the southern periphery of Russia, from Moldova to Tajikistan.

Among the criteria for recognition set by the European ministers, one that previous generations of diplomats would have seen as the most important was strangely left out: what the Slovenian jurist Danilo Türk calls "the criterion of the effectiveness of the power of the group claiming self-determination in a certain territory". Historically, states have established themselves by proving, if necessary in war, that they were able to survive; or they have been established after someone else defeated the state to which their territory formerly belonged.

The ministers in Brussels, in December 1991, rightly sensed that such a method of deciding whether a new state has the right to exist is barbaric and primitive. They wanted to establish a more civilised and democratic test of legitimacy. Did the majority of the people in the territory concerned support the new state? And were dissenting minorities guaranteed full civil and political rights within it? If so, it was entitled to recognition. What they failed to consider was how to give effect to such legitimacy if the group claiming self-determination does not effectively control its territory, as proved the case in Bosnia.

Following the criteria they had established, the EC member states, accompanied and urged on by the US, recognised Bosnia's independence in April 1992; it was admitted to the UN the following month. But they were unable or unwilling to help the new state to achieve effective control of its own territory. Bosnia was left to face the same ordeal by battle that other new states have had to pass, without being allowed weapons to fight with.

Now the Chechens are in a similar plight. At least they, unlike the Bosnians, cannot blame "the international community" for encouraging them in any false hopes.

* *The North Caucasus: Minorities at a Crossroads. £4.95/$8.95 plus postage from MRG, 379 Brixton Road, London SW9 7DE.*

Vanessa Houlder on the gadgets and products that excited or seduced consumers this year

Toys make children of us all

What's in and out: clockwise, Mighty Morphin Power Rangers are this Christmas's leading toy; western perfumes are sought after in Russia; and Nintendo has lost out after five years at the top

The hit product of 1994 caused hype and havoc in equal measure. The shortage of the plastic action toys called Mighty Morphin Power Rangers led to overnight queues, waiting lists months long, a thriving black market, fights in toy shops and even an armed robbery.

The demand for these toys, which are based on a TV series being screened in 80 countries, is on target to beat all previous records for toy sales in the run-up to Christmas.

The output of 33 factories across the world working 24 hours a day, seven days a week, evidently left large numbers of unsatisfied customers around the world. "It could sell 10 times over if the stock were available," claims Bandai, the manufacturers.

It is no surprise that product crazes most often occur in the toy industry. Television's power to sell toys based on popular programmes, together with children's susceptibility to peer pressure and their skill at pressurising their parents, can create a mass market for a new product overnight.

Selling toys aimed at adults is a trickier proposition, although there is no shortage of companies willing to try. The Christmas catalogue of Neiman Marcus, the elite Texas-based department store, offered customers a novel method of observing fish and coral with its $7,500 Bellaqua Breathing Observation Bubble (Bob), an underwater scooter with an air-filled dome to cover its rider's head and shoulders.

Another ingenious, if less elaborate, viewing gadget made a big inroad in the UK. The Night Spy, a £495 image intensifier that allows wildlife spotters, astronomers and caving enthusiasts to see in the dark was the best-selling product of Innovations, a UK catalogue company.

On a more practical level, some of the most fashionable gadgets of 1994 have been communication tools, which have benefited from falling costs and increased sophistication. In France, the Bi-Bop mobile phone, which is small enough to slip into a pocket, became an ultra-chic accessory for Parisians, following its launch last year. In California, pocket pagers continued to be essential items for teenagers.

For techno-enthusiasts, one of the most promising new developments in the personal communications market was the arrival of Sony's Magic Link in September. It is a small, light personal digital assistant that organises contacts and calendar and allows users to communicate easily via voice, fax and e-mail.

Another personal digital assistant, Sharp's Zaurus, a pen-based system that reads handwriting took the Japanese market by storm. Other top-selling gadgets in Japan were wide-screen television sets and car navigational devices based on global positioning systems.

In general, however, the tastes of Japanese consumers are moving away from the technological sophistication of recent years. Dentsu, Japan's largest advertising agency, detected a widespread craving for familiarity and nostalgia this year in its annual survey of hit products.

Wrinkle-free shirts, made from a fabric that retains its original shape, was a hit product that was a variation on a familiar theme. Another measure of a more downbeat mood among Japanese consumers was the popularity of books about dying. *Peaceful Death*, by radio commentator Rokusuke Ei, the most popular of these books, sold more than 1m copies.

Luxury goods have made a partial comeback after the downturn of the early 1990s

Value for money was a strong theme with Japanese consumers this year. The extravagance that characterised the late 1980s, when people exchanged splendid gifts such as live lobsters, has not yet returned. However, Japanese consumers were slightly more prepared to buy luxuries in 1994 than they were in 1993, according to Dentsu.

Indeed, luxury goods have made a partial comeback throughout the affluent world, following the downturn of the early 1990s. At one point this year, Louis Vuitton said that demand for its range of bags was so strong that its luggage shop on Avenue Montaigne in Paris limited sales to two per customer.

Moreover, demand for luxury goods has been strong in markets that were, until recently, closed to western retailers. Boutiques such as Cartier's in Shanghai, Christian Dior's in Moscow, and Ferrari's showroom in Beijing have allowed status conscious entrepreneurs to flaunt their new wealth.

The spirits manufacturers have also found new markets. Imported vodka has found a surprisingly buoyant market in Russia, while brandy – and, to a lesser extent Scotch whisky – has sold strongly in China.

On the other side of the world, the most intriguing development in the drinks market was the growing popularity of "New Age" or "natural" beverages. These concoctions, which boast names such as Raspberry Iced Tea, Mango Madzin' Grape Juice, Mango Madness Cocktail, Raspberry Psychic Lemonade and Grape Beyond took the US by storm, helping to erode the market share of dominant cola drinks such as Coca-Cola.

The challenges facing one of the US's all-time greatest drink brands is among the most intriguing product stories of recent years. But for the most important US product trend of 1994, it is necessary to look to the computer market.

In the US, where consumers are already several times more likely to possess a home computer than in Europe or Japan, sales are growing at a pace that will see nearly half of US households owning a PC by 1998.

This trend has been pushed forward this year by developments in multimedia. The arrival of machines that can talk, sing, play music and show video clips is creating new forms of electronic recreation, from "infotainment" (such as Microsoft's Encarta, a CD-Rom encyclopaedia) to disc-based games that can be run on PCs.

In the face of this competition, traditional game manufacturers, such as Sega, are fighting back with the first of a new generation of powerful 32-bit, compact disc-based machines. Sony sold out of its first video game machine, the Sony Playstation, on its first day on the market in Japan.

As consumers wait for the new machines, enthusiasm for the existing 16-bit video game platforms has waned. For the first time in five years, Nintendo did not figure on the list of predicted top 10 Christmas best-selling toys produced by Hamleys, the London toy store.

Nonetheless, the existing platforms have their uses. Sega has launched a Mighty Morphin Power Rangers game for its Mega Drive and GameGear. It might – just might – help fob off the clamorous children whose parents failed to get hold of one of the prized Power Rangers toys.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Private pensions are no better safeguard

From Prof Willem H Buiter.

Sir, In his reflections on a World Bank study of the looming public pensions crisis, Martin Wolf (Economic Eye: "Confronting the old age crisis", December 19) concludes that "governments are absolutely certain to default on their pension obligations, probably by a mixture of higher pension ages, reduced indexation and means testing. The notion that the state can be trusted is just one of several myths punctured by the Bank".

He also refers to the Bank's recommendation of a multi-pillar system in which the public pillar is supplemented by a privately-managed, funded and mandatory system, alongside purely voluntary savings. He ends his column with: "... Stop believing in Father Christmas and start saving now."

Martin Wolf may have stopped believing in Father Christmas, but he appears to have kept his faith in the Easter Bunny. If the state is not to be trusted, why recommend privately managed, funded and mandatory pension schemes or even purely voluntary savings? These kitties, too, can be (and have been) raided by the state, without any need for recourse to such coarse mechanisms as outright expropriation or confiscation.

The assets owned by private funds or individual savers can be raided through targeted capital levies or a general wealth tax. The income earned on these assets can be taxed in a variety of ways ("unearned" income used to be taxed significantly more severely than labour income in the UK until quite recently) and the consumption financed out of the earnings from these assets can in turn be taxed with a wide range of general or specific instruments.

There is a rule of thumb in economic policy reform that says: if you are faced with market failure, deal with it not by tinkering with the symptoms, but by eliminating the root causes of that failure.

The same applies to the political system failure diagnosed by Wolf. If the political system is fundamentally flawed in that it does not enable governments to enter into binding commitments ("the state is not to be trusted"), then reform the constitution so as to make it prohibitively difficult or costly for governments to renege on certain classes of commitments.

In the case under consideration, this might be achieved in part by requiring heavily qualified majorities for changes in tax and benefit systems. Without such reform Wolf's recommendations amount to saving future pensioners from the guillotine by handing them to the firing squad.

Willem H Buiter,
professor of
international macroeconomics,
University of Cambridge.
Lynchgate House,
15 Church Street,
Great Missenden,
Sandy, Beds SG19 3AF

Competition argument unconvincing

From Mr Mike Parker and
and *Mr John Surrey.*

Sir, The recent public relations furore over the affairs of British Gas should not be allowed to divert attention away from the much more important long-term issues arising from the proposed introduction of full competition in the domestic gas market. The recent report on this issue by the trade and industry select committee came to conclusions on prices and security of supply which are closely in line with the analysis in our recent study, *UK Gas Policy: Regulated Monopoly or Managed Competition?*

On prices, we said that competition is unlikely to result in significant reductions in the average domestic price of gas over and above the effect of the retail price index-4 price formula already applied to British Gas; and the select committee acknowledges that the extent of any price reductions attributable to the introduction of competition "remains highly uncertain".

We also concluded that, under competition, it will be difficult to maintain the present level of gas supply security and the select committee agrees "it will be less easy for new competitors to match supply and demand, given their smaller size and the reduced ability to forecast demand in a competitive market".

It was primarily these considerations which led us to the view that the overall balance of benefits, costs and risks was unfavourable. The select committee, using the same data and similar analysis does not come to that judgment and the issue remains unresolved.

Much of the discussion has been polarised into one of "for or against competition". This is misguided. In appropriate circumstances, competition can bring great benefits. But in the case of domestic gas, we remain to be convinced that there is an overall balance of advantage.

Mike Parker,
John Surrey,
Science Policy Research Unit,
Mantell Building,
University of Sussex,
Falmer, Brighton BN1 9RF.

Scheme designed for long-term unemployed

From Mr John Atkinson.

Sir, While your paper's interest in the worsening problem of very long-term unemployment is to be applauded, your report of our institute's evaluation of the pilot Workstart schemes is misleading ("Work scheme misses short-term jobless", December 16). The Workstart pilots were explicitly designed to help the very long-term unemployed back into jobs. It is therefore hardly surprising that the pilots "miss the short-term jobless", as your headline states. Workstart has never sought to help the short-term unemployed, and they are specifically excluded from its ambit.

Furthermore, your report states that "just under half of the employers who participated in the scheme ... hired a long-term unemployed person, where they would previously have recruited someone out of work for less than two years". This is not so. Our research found that, in the absence of a subsidy, just under half of these employers would have hired someone other than the very long-term unemployed, that is including, but not exclusively, the short-term unemployed. The correct figure for the short-term unemployed is 22 per cent.

What is needed now is to ensure that the new generation of Workstart-like initiatives announced in the Budget learn the lessons of the pilot schemes. Your report does not help this much.

John Atkinson,
associate director,
Institute for Employment Studies,
Mantell Building,
University of Sussex,
Falmer, Brighton BN1 9RF

Bury the colonial hatchet

From Dr Evelyn T de la Vega.

Sir, In your December 3/4 issue there are two articles, two studies in contrast, which make me doubly happy that we had our Boston Tea Party in the 1770s and sent you packing to your sweet King George. One is "Drug claim on Gibraltar border" and the other "It is China that will call the shots on the handover of Hong Kong".

I understand the power of 1bn Chinese buying Jaguars or Raleigh bicycles, but you are handing 5m British subjects to a communistic totalitarian country while you refuse to return Gibraltar to Spain, a friendly, democratic country.

Gibraltar is a colonial relic, a historical rancour of England over Spain, and, for 40m Spaniards, it is a source of irritation and contraband, an ingrown toe nail in the foot of Spain.

Here is my idea and wishes for the English millennium: that England, in its heart, makes peace with Spain, buries the war axe and returns Gibraltar to Spain; that a statue of Queen Elizabeth II and of King Juan Carlos I be set up on Punta Europa.

Evelyn T de la Vega,
48 McFadden Hut,
Brownsville,
Texas 78520, US

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Wednesday December 21 1994

Sanity on the roads

The UK government's transport planners have belatedly acknowledged that new roads encourage people to travel more. But it would be the height of folly for ministers to follow their new-found wisdom with a thoughtless attack on the roads programme. Rather, the urgent priority is for the introduction of road pricing, so that motorists and businesses pay a true economic cost for their use of the road system.

A report published this week by the standing advisory committee on trunk road assessment, a group of independent experts, concluded that road schemes should take into account "induced traffic". Mr Brian Mawhinney, transport secretary, has said he will accordingly reassess all 270 road schemes currently at planning stage.

The report claims that, by neglecting induced traffic, transport officials have long over-estimated the economic benefits of new roads and road improvements. This is because new roads often serve simply to stimulate extra traffic. Since much of the trunk road network is already close to capacity, additional traffic leads immediately to increased congestion on existing roads.

Anti-roads groups have seized on this acknowledgement of induced traffic as evidence that too many roads are being built. They see it as a signal that the roads programme should be drastically curtailed – and endlessly pray in aid the M25, more congested after every improvement.

This is far too simplistic an approach. There can be no doubt that induced traffic is often desirable. Regions – even towns – often suffer from an inadequate road infrastructure. In principle, we should no more regret the upgrading of roads than any other improvement in communications networks.

However, this is not an argument for expanding roads, regardless. On the contrary, transport policy is in a parlous state, because individuals and businesses are at the moment encouraged to make uneconomic choices in their use of transport infrastructure. This will continue until motorists are obliged to pay a price for the use of roads that reflects marginal social cost. The government is working on proposals to introduce electronic tolling on the motorways, which is unlikely, for technical reasons, to be possible before 1998. It cannot come a moment too soon.

Motorway and city centre tolling could serve to price marginal journeys off the strategic roads network at peak periods, reducing the overall capacity needed and increasing the efficiency of its use. It would impose the discipline on road travel that applies to other modes of transport.

In the process, it would almost certainly make public transport more attractive – particularly such common sense projects as rapid transport systems in congested urban areas. The government's announcement last week of approval for local authority transport spending revealed a small but potentially significant shift to measures to promote cycling, pedestrians and buses.

Mr Mawhinney wishes to stimulate a public debate on transport policy. This is to be welcomed. Unfortunately, the transport debate is currently polarised between the anti-roads lobby and supporters of more road building. The debate needs to focus on allowing efficient choices, not on modes of transport considered desirable *a priori*.

The defect of this report is that the issue it focuses on is a red herring. It should hardly need saying that additional roads induce extra traffic. That is what transport infrastructure is for. If the UK is to have a sensible debate, it cannot start from here.

Turkish tangle

The failure of the European Union to finalise its planned customs union with Turkey this week was predictable. On the one hand, there is widespread concern in western Europe at the present human rights situation in the country. On the other, Greek opposition in principle to virtually all forms of partnership towards Turkey from the EU remains apparently implacable. The first concern is justified. The second is counter-productive, both for the EU and for Greece.

The relationship between Turkey and western Europe is of vital strategic importance and, at the same time, extremely sensitive. The country sits at the centre of a complex of three extraordinarily volatile areas: the Balkans, the Caucasus and the Middle East. Its stability and its commitment to democracy are essential to prevent the upheavals in those areas from spreading and contaminating the entire region. Turkey's membership of Nato and its association treaty with the EU have consistently proved helpful guarantees of that stability.

Turkey wants very much to be considered a European state, and not an outsider. Yet its application for full membership of the EU has hitherto been rebuffed, both on economic grounds and because of its poor record on human rights, above all in dealing with its Kurdish minority. On the other hand, its association treaty, signed way back in 1963, commits both sides to introducing a customs union by January 1 1996.

The trouble is that the human rights situation in Turkey has not noticeably improved. The imprisonment of eight Kurdish members of parliament has underlined the continuing problem, even if the threat of executing them for treason has now been lifted. The European Parliament, and the EU member states, are right to demand that the Turkish government and army should respect the rule of law in their fight against terrorism.

Simply blocking the customs union is not going to help those in Turkey who want to promote democracy and the rule of law. It will more probably strengthen the hands of the hard liners. A combination of carrot and stick is needed. But Greek intransigence results in a policy which is all stick.

It is not at all clear that Greece will lift its blockage by the next meeting with Turkey, fixed for March. It has now been blocking proposed financial co-operation for the past seven years. It means that Greece has made itself the scapegoat for keeping Turkey out in the cold. It is a policy which is counter-productive for all concerned.

Soap and chips

However else it may be remembered, 1994 will probably go down as the year the gloves came off in international business. VW and GM at loggerheads over an itinerant purchasing director; Unilever and Procter & Gamble slugging it out in the European detergents market; now Intel and IBM are at each other's throats over alleged flaws in Intel's Pentium personal computer chip.

At one level these battles have little in common, beyond the obvious fact that markets for goods and services are getting fiercer, as they become global. But the year's two great marketing struggles – the "soap war" over Unilever's Power detergent, and the dispute between Intel and IBM – do offer other, broader lessons.

One is that global marketing is uniquely challenging. Launching a product more or less simultaneously across a continent, or the world, as is increasingly the trend in consumer markets, demands that companies attain a flexibility and focus that few have yet achieved. If something goes wrong in one national market, the chances are that the problem will spread rapidly – as Unilever, recently reorganised along continental lines, found to its cost.

Another lesson is that technology can be a marketing curse as well as a blessing. Companies seize on technological innovations as a unique selling point for products, especially in mature, oligopolistic markets, such as European detergents. Yet unless they subject their new products to the most rigorous testing – looking, as Unilever patently did not in the case of Power detergents, for flaws that a ruthless competitor might expose – the invention may blow up in their faces.

Then there is the question of communications. Both Unilever and P&G have learned in recent months that they can no longer hide behind the carefully manipulated image of their brands; they have to explain themselves and their activities more effectively to consumers and the wider public.

Even where technology is the only obvious selling point, as with Pentium chips, there is a risk that over-ambitious marketing claims, without adequate information, will simply confuse the consumer. How many PC users had worried about possible flaws in the inner workings of their computers until Intel started trumpeting Pentium? How many users of soap powder noticed that washing damaged their clothes before Power came along?

It does not matter how mundane the product. Consumers are more demanding than ever before – and competitors more ruthless. The manufacturer that fails to appreciate these facts will go to the wall.

A crisis of leadership

Roger Matthews analyses the difficulties Middle Eastern governments face in attaining peace and prosperity

Peace and prosperity? Clockwise from left, Hamas threatens the PLO; Yitzak Rabin, Bill Clinton and Yassir Arafat in Washington; Iraq's Saddam Hussein still prevails; Syria's Hafez al-Assad; Egypt's Hosni Mubarak

Peace, if it comes fully, and lower oil revenues, if they persist, could pose as big a political challenge to Middle East governments over the next few years as wars and sudden wealth have done during the previous 40.

The reaction of the regimes most critically affected by these developments will influence not just the well-being of the peoples in the region, but also the continued security of western oil supplies.

War, or the threat of it, has long been used to justify and legitimise authoritarian governments throughout the region. The paternalistic dispensation of vast oil revenues serves a similar function. So long as there was a dangerous enemy without, and expensive oil below, the popular demand for change was likely to remain muted.

Neither revenues nor threats of war can now be guaranteed. The enemy, in the shape of Israel, cannot be realistically challenged on the battlefield. Oil, though still plentiful, is not worth what it was, and revenues are no longer sufficient to ensure a pliant population.

Peace, in so far as it has been achieved, has been between leaderships motivated primarily by the desire to retain power, and has created little of the warmth between peoples that would make the agreements more durable. The Israeli-Egypt agreement signed in 1979 has done almost nothing to stimulate exchanges, economic or cultural, between the two countries.

In part this reflects Egyptian resentment at Israel's continued occupation of Arab territory and its perceived arrogance towards those living under its control.

The outline accord between Israel and the Palestine Liberation Organisation and the subsequent treaty with Jordan have also failed to ignite popular enthusiasm, for very similar reasons.

As a result, Mr Yassir Arafat's leadership of the PLO is under mounting assault for its failure to deliver tangible material improvements for the vast majority of impoverished Palestinians, and for his refusal to consult and delegate more widely.

But Mr Arafat is simultaneously at the mercy of an Israeli government, which under Mr Yitzhak Rabin, the prime minister, is obsessed by short-term security considerations. To this end, Mr Rabin has made Israeli military withdrawal from the West Bank conditional on the degree to which Mr Arafat can halt attacks on Israelis by Hamas and other extremist Islamic groups.

Small wonder then that Mr Arafat's opponents, and particularly Hamas, accuse him of acting as a surrogate for the Israeli army.

The Hamas accusation appeared to be given greater credence last month when 13 protesting Palestinians were shot and killed by Mr Arafat's police. There is nothing novel about Palestinians fighting among themselves in the diaspora, but the threat of wider armed conflict erupting in the newly-liberated territories is a serious setback to national aspirations.

For decades, Palestinians had boasted that when their new state was born it would be modern, democratic and efficient – a reflection of their individual commitment to educational achievement and to their managerial expertise demonstrated throughout the Arab world, and especially in the Gulf. Palestine, they claimed, would not be like other Arab states.

So far little has been seen to support that assertion. The most articulate voices of people such as Mrs Hanan Ashrawi, spokeswoman during earlier rounds of negotiations with Israel, and Mr Haidar Abdel Shafi, arguably the most respected leader in Gaza, have been largely stilled.

The younger generation of internationally-trained Palestinians has scarcely been encouraged to participate. Instead Mr Arafat prefers to rely on the same, narrow coterie of men who are without popular appeal, but offer no serious challenge to him.

Elections to local and national self-rule authorities might just inject some new blood into the senior ranks of the leadership. But polls have been seriously delayed, and remain tied to Mr Rabin's assessment of whether Israeli security can be guaranteed after a military withdrawal. But the longer the delay continues, the more Palestinian resentment will grow at the failures of the peace accord, and the greater will be the chances of elections producing a significant protest vote that will please neither Mr Rabin nor Mr Arafat.

This crisis in leadership is repeated in different forms throughout the Middle East.

The most extreme example is Algeria, where the inability of the post-independence regime to answer the basic needs of its population provoked a panic rush for legitimacy through the ballot box, and an equally abrupt retreat in early 1992 when the Islamic opposition seemed certain to win. As a result the country has plunged into near civil war, with an estimated 700 people dying every week.

Both sides are employing the most brutal methods in their battle for ascendancy. Helplessly squeezed between the two extremes are the vast majority of Algerians who wish for nothing more than responsive, caring government.

Their plight is that of so many Middle Easterners, whose governments have looked at the ill-managed flirtation with democracy in Algeria and concluded that they will have no truck with such dangerous adventures. Instinctively hostile to democracy, they have encouraged belief in the myth of a co-ordinated, international campaign by the political wing of Islam to overthrow established, western-oriented governments. It is a convenient argument, sometimes supported by Iranian government actions, but ignores the fact that Islamic forces have fared best where governments have done worst.

Egypt, historically the most stable of Arab nations, appears to have at least temporarily blunted Islamic violence, but its efforts to reduce the poverty in which extremism breeds remain modest. The government has no mass political movement to support it, and the majority of people feel incapable of influencing its actions. So when challenged, its response tends to be one-dimensional, based primarily on police and military action that carries with it the risk of further alienating parts of the population.

Neither has 15 years of peace with Israel and more than $2bn a year in annual aid brought significant economic gains to more than a few

Arafat's leadership of the PLO is under mounting assault for its failure to deliver tangible material improvements

Egyptians. Greater fiscal stability has been achieved, but the vast and inefficient public sector still dominates the economy and the privatisation programme is moving ahead at a snail's pace. A broader peace with Israel involving more Arab neighbours may bring wider economic benefits, but the Egyptian example is far from compelling.

If peace is to be extended, it will require a deal with the Syrian regime, which is more authoritarian than Egypt, has dealt more emphatically with its Islamic opponents, imposes an even greater state domination of the economy, and is the controlling influence over events in Lebanon. President Hafez al-Assad may be moving into the twilight of his career but he is no less determined to win back the Golan Heights, captured by Israel in 1967, and appears unlikely to make any political or significant economic reforms that would undermine his ability to dictate the succession. Mr Assad appears to have convinced President Bill Clinton that he has made a strategic choice for peace, but it will only be on terms that satisfy his domestic requirements.

Yet just as such a peace would eventually erode the justification for authoritarian government in Syria, so lower oil revenues will slowly nibble away at the political fabric of regimes in the Gulf. The governments of the six members of the Gulf Co-operation Council, Saudi Arabia, Kuwait, Oman, United Arab Emirates, Qatar and Bahrain, are all faced by the same budget deficit problem. Either they have to slash spending, or find extra sources of income.

Saudi Arabia this year has sought to cut official expenditure by 20 per cent, but even if it has been successful the budget deficit is still likely to be close to 10 per cent of gross national product. There is still plenty of fat to trim, but not without causing pain to a population that has grown accustomed to a lifestyle largely funded by government.

Getting less from government is, however, one thing. Contributing to government, through the payment of taxes, is something else. Time and again Saudi officials have warned privately that the introduction of such measures is not compatible with social harmony, meaning that the ruling House of Saud continues to set its face against significant change.

Such unwillingness to adapt mattered less while Saudi Arabia was cushioned by substantial financial reserves. But these were massively eroded by the $55bn cost of financing the Gulf war, and the kingdom is now being asked, albeit far more modestly, to contribute to the latest US deployment in October, when Iraq again appeared to be threatening Kuwait. Should further allied deployments be necessary, or another crisis flare in the Gulf, Saudi Arabia would be left with little room for financial manoeuvre.

The kingdom might be more relaxed about the future if it were not for the continuing uncertainty about the intentions of Iran and Iraq, its two largest and still potentially hostile neighbours. Iran's religious leaders appear to be maintaining their grip on power, but the heavy burden of external debt and more general mismanagement of the economy is forcing up both inflation and unemployment. Further outbreaks of social unrest appear likely and, while the reaction of the regime domestically is predictable, there is much less certainty about how it might seek to divert attention through its activities on the international stage.

No person has played the diversionary card more persistently that President Saddam Hussein, and no people has suffered from it more devastingly than those of Iraq. How, or when, they might emerge from the tyranny is as unpredictable as the behaviour of the Baghdad leadership, but the US appears determined not to accept any significant easing of sanctions while Mr Hussein remains in power.

The US policy of "dual containment" may limit the threat that Iraq and Iran can mount in the short term against their neighbours. But the longer-term effects on the political attitudes of a combined population of 80m people, fed on a constant diet of anti-American propaganda, should give pause for thought in Washington.

What is missing most obviously in the Middle East is a role model. Some western fingers point approvingly at Morocco and Tunisia as two countries that have instigated market-oriented reforms and might be willing to contemplate a more liberal political system sometime in the future. Lebanon is trying to rebuild, but its prospects remain hostage to events outside its borders. Jordan also might grow quickly if peace deepens and Iraq.

But for all the glimmers of hope, there is also Libya, where Col Muammar Gaddafi still holds sway, Yemen recently battered by civil war, and Sudan torn between civil strife and the grip of an Islamic regime. The collapse of the Soviet Union has helped to accelerate the decline of such regimes, and the collapse of any semblance of Arab unity has underlined their international isolation.

Peace between Israel and Arab governments might just provide the catalyst for positive realignments if it moved more swiftly, was approached in a more generous spirit, and developed a momentum that delivered early economic gains. Many businessmen attending the recent Casablanca conference on the economic benefits of peace were encouraged by the contacts they had made and impressed by the ease with which barriers came down. Such flexibility has yet to translate itself to the political negotiating table.

It may be, of course, that there is no majority in Israel for a peace that would return virtually all occupied Arab land and see the removal of most of the Jewish settlements. If it is too late politically for Israel, then it may also be too late for many Arab leaders to accept anything less, and survive.

Mr Arafat could well be the touchstone. He and Mr Rabin must be well aware that if they fail to carry the day, the centre crumbles, and the challenge of peace will never have been fully joined.

That, for the most myopic and the most extreme, will be a relief.

Roger Matthews concludes his term as the FT's Middle East editor this month. He takes up his new post as South Africa correspondent in the new year

OBSERVER

Brothers sweet for Rolo

As the endgame for control of Credito Romagnolo unfolds this week, it is a matter of so far so good for the Bolognese regional bank in its rather eccentric decision to hire both Goldman Sachs and Morgan Stanley as co-advisers.

What started off as a hostile move on the part of Credito Italiano, placing a value of L2,000bn on 48.2 per cent of Rolo, has now been raised to a possible L3,290bn for 70 per cent from a Cariplo-led consortium, an infinitely preferable proposition.

The two great rivals of global M&A turn out to be happy families in more ways than one. Meet the Zaoui brothers – Michael, the elder, managing director in charge of M&A for Morgan Stanley in southern Europe, and Yoel, four years his junior, an executive director at Goldman Sachs.

The pair, who have been co-operating on an often parochial defence revolving around Rolo's regional identity, could themselves hardly be more international. Sporting a north African name, the brothers grew up in Italy, went to business schools in the US and are French nationals.

Michael has enjoyed the opportunity to "get closer" to Yoel, and admits to having dispensed the odd tip along the way. Makes a change. In global advisory work, it is usually Goldman Sachs that plays the big brother.

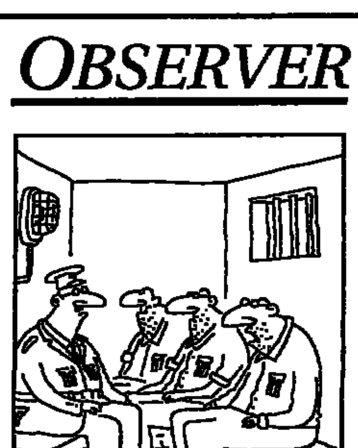
Waiting room

■ Three regional electricity companies have set tongues wagging in the industry by sending out the same corporate Christmas card, in aid of the hospice movement. They are: Northern, which is the subject of a hostile bid from Trafalgar House; Seeboard, widely thought to be the next most likely candidate for a takeover; and Southern which last week indicated it would be interested in mergers. More than just a coincidence?

Bridge-building?

■ Simon Keswick, Trafalgar House's new taipan, really must do his homework. Having made a hostile takeover bid for Newcastle's Northern Electric, the next move in his battle plan required him and his NCOs to enter enemy territory disguised as a local company.

So yesterday saw Trafalgar's top brass having their photographs taken in front of the Tyne's bridges. Not only does Trafalgar House own 14 companies in the North East but one subsidiary is connected with three of the six bridges over the River Tyne. Two were built by Darlington-based Cleveland Structural Engineering and the most famous of them all, the Tyne Bridge, was erected by Dorman Long, acquired by Trafalgar House in 1982 and then combined with Cleveland.



'We can't all be on the escape committee'

"Wherever we go we feel you have got to be sensitive about people's culture," says Keswick. How sad then that Trafalgar House's propaganda could not even get the dates right for the construction of Newcastle's most famous bridge. It was built between 1925 and 1929, not in 1920.

Toddling on

■ In what possible circumstances would the UK government keep quiet until *after* last week's calamitous Dudley by-election the little fact that 100-plus jobs would be moving in the direction of the west Midlands constituency?

For the Department of Social Security left it until yesterday to reveal that the headquarters of the Child Support Agency would be moving from London to Dudley – presumably with consequent positive, if modest, effects on the unemployment register.

So does this signify a sudden bout of high ethical standards with regard to buying voters' support? The DSS says it would indeed have made the announcement earlier "but for the by-election". More likely explanation: acute awareness of the agency's dismal reputation.

Don't Bank on it

■ Scotland's Celtic is the latest football club to tread the road to the stock market. Yesterday it announced a plan to raise up to £9.4m and disclosed that a group headed by Dermot Desmond, former chairman of Dublin's NCB Stockbrokers, intends to become a significant shareholder in the 106-year-old club. Fans are also being offered a first chance to buy a stake in the club for as little as £7.77 per week.

But the deal failed to impress Celtic's oldest supporter – the Bank of Scotland. After a century-long association, Celtic has dropped the Bank of Scotland and switched its favours to Manchester's Co-operative Bank. Celtic chairman Fergus McCann says the level of support required by Celtic was not forthcoming from Scotland's oldest bank.

Direct question

■ At least one person has not been carried away by the growth of Direct Line, the UK telephone insurer. The firm's annual report confirms that Peter Wood, its intense chief executive, was paid £17.3m this year. But the emoluments of Direct Line's chairman are not so grand. In fact, George Mathewson was paid nothing last year. Perhaps Mathewson, chief executive of Royal Bank of Scotland, Direct Line's parent, is content with the £401,000 he got for his main job. Or perhaps he is making a point to his ambitious junior colleague.

Willing spirit

■ Staff at the Cato Institute, the libertarian Washington DC think-tank, recently took a call from the BBC drawing up a series on "new thinkers". The researcher wanted a phone number or address for Ludwig von Mises, the Austrian proponent of entrepreneurial capitalism. Von Mises, who fought in the First World War and taught Friedrich von Hayek, died in 1973. Anyone know a free market medium..?

FINANCIAL TIMES
Wednesday December 21 1994

Warning on need for more flexible labour markets

Bright future for leading economies seen by OECD

By Gillian Tett in Paris

The economic outlook for the industrialised world is brighter than at any point in recent years, with strong growth and low inflation expected over the next two years, the Organisation for Economic Co-operation and Development said yesterday.

However, the recovery could quickly sour if governments do not seize the chance to address longer term structural problems by introducing politically sensitive reforms, the Paris-based think-tank warned.

In an unusually strong appeal, Mr Kumiharu Shigehara, chief OECD economist, called on governments not to succumb to tax cuts and to reduce debt levels through measures such as tighter controls on social security budgets. He also implied that more countries should create greater labour market flexibility, and praised deregulation measures in the UK and New Zealand.

"This [economic growth] is a golden opportunity to address longer term problems," Mr Shigehara said.

The appeal came as the OECD unveiled its latest half-yearly outlook on the world economy. In an optimistic report, the OECD revised upwards its forecasts for economic growth and predicted that the industrialised world would see growth of 2.8 per cent this year and about 3 per cent in each of the following two years.

The US is expected to remain one of the fastest expanding economies this year, although growth is predicted to slow in the next two years. Continental Europe is forecast to revive sharply next year, amid strong export growth, and the Japanese economy is likely to see a faster pick-up in domestic demand than most other OECD countries.

This growth would force a tightening of monetary policy over the next two years in many OECD countries, the outlook said. The US Federal Reserve is expected to push interest rates higher next year, with short-term money market rates rising to 6.7 per cent by the start of 1996. Other countries, such as the UK, are expected to follow suit, although German rates are predicted to remain broadly stable.

However, the OECD said that longer term structural problems would be the main issue facing western governments. In particular, strong economic growth would do little to reduce the high levels of unemployment in Europe without labour market reforms. The OECD expects unemployment to barely fall below 11 per cent in Europe in the next two years, from its current level of 11.6 per cent.

One solution to high unemployment would be to introduce greater labour market deregulation, Mr Shigehara said. "I don't want to say that the UK is a model. But the labour market flexibility there has had a positive effect." The OECD is due to issue specific country recommendations for reducing unemployment next year.

Interest rates may rise, Page 4

Carter announces temporary ceasefire in Bosnia

By Laura Silber in Belgrade

Bosnia's warring factions have agreed to a temporary ceasefire ahead of negotiations on a permanent end to the war by January 1, Mr Jimmy Carter, the former US president, announced yesterday.

In a day of frenetic shuttle diplomacy, Mr Carter met the Bosnian Moslem leadership in Sarajevo, and then drove to the Bosnian Serbs' capital of Pale for a further round of talks after their leader Mr Radovan Karadzic contradicted Mr Carter's version of their meeting on Monday.

Mr Karadzic said on Monday that he had agreed only to explore the possiblity of a ceasefire. After his second meeting with Mr Karadzic, Mr Carter said: "The most significant achievement this morning was the Bosnian Serb leaders . . . agreed to a complete ceasefire throughout Bosnia from December 23".

He said an initial four-month *ceasefire would be "monitored* by UN forces along all lines of confrontation" and should become a permanent truce.

In addition, Mr Carter said Bosnian Serb leaders had agreed to halt their military activities around Bihac, the beleaguered Moslem enclave in the north-west before the ceasefire comes into effect on Friday. Sarajevo radio said Serb forces last night were bombarding Bihac, a United Nations safe area.

Mr Carter later continued his private peace mission by flying to Belgrade for talks with Mr Slobodan Milosevic, the Serbian president.

Scores of ceasefires have been agreed and quickly violated since war erupted 32 months ago. A peace plan, put forward by the US, Russia, Germany, France and the UK, calls on Bosnian Serbs to reduce their territorial gains from 70 to 49 per cent of the country.

The Moslem-led Bosnian government insists the Serbs must accept the five-nation Contact Group plan before talks continue. On Monday, the Bosnian Serbs said they agreed to accept the plan "as a basis for negotia*tions of all points."*

Mr Carter's claimed breakthrough came as the UN announced that the Belgrade-Zagreb motorway, the busiest overland route between Europe and the Middle East, would reopen *today for the first time since* August 1991.

● German chancellor Helmut Kohl's cabinet yesterday agreed to commit Tornado fighter bombers for use over Bosnia if asked to help evacuate UN peacekeepers, government sources said, Reuter reports from Bonn. If approved by parliament, this would be Germany's first foreign combat mission since the second world war.

China admits defeat in early bid to join world trade group

By Frances Williams in Geneva

China yesterday conceded defeat in its bid for early membership of the General Agreement on Tariffs and Trade and its successor, the World Trade Organisation, but said it was prepared to continue negotiations next year.

In an angry statement yesterday to the Gatt working party meeting in Geneva to discuss China's membership terms, Mr Gu Yongjiang, the deputy trade minister, repeated accusations that the negotiations were being blocked by the "excessive demands" of a few Gatt members – a reference to the US and the European Union in particular.

But Mr Gu did not maintain previous threats by Beijing to withdraw trade concessions already offered and even to restrict western exports if "substantive agreement" on entry terms was not reached by the end of the year. He said China's offers to open markets for foreign goods and services and on implementation of fair trade rules would remain on the table, but they would not be improved.

"The current concessions represent the maximum efforts China can make at its economic development levels as a developing country," Mr Gu said.

China would not "initiate" further membership negotiations but it would take part in the next working party meeting scheduled for February. "China has no intention to close the door of negotiation," he said.

Beijing has attached great importance to joining the WTO, which begins work on January 1, as a founder member. An original member of Gatt in 1948, China left the organisation in 1950 after the communists came to power. Both the US and the EU have offered to grant China founder-member status provided the negotiations are concluded speedily next year. Mr Pierre-Louis Girard, the Swiss chairman of the Gatt working party, said yesterday that "very substantive progress" had been made in the past few days.

However, trade diplomats said after the working party meeting many difficult issues had still to be resolved and that China's market-opening offers remained unsatisfactory.US concerns about Chinese membership terms are shared by developing as well as industrialised countries.

● Mr Peter Sutherland, Gatt director-general, is to be asked to stay on as head of the WTO until March 15, to allow more time for his successor to be chosen.

The EU, whose candidate, Mr Renato Ruggiero, has a commanding lead, had wanted a shorter extension. The other candidates are Mr Carlos Salinas, the former Mexican president, who is backed by the US, and Mr Kim Chul-su of South Korea.

Devaluation

Continued from Page 1

growth and *inflation forecasts of* 4 per cent, he said.

Analysts said a seasonal demand for dollars by private companies, which pay off dollar debts at the end of every each quarter, a switch by domestic investors from peso-denominated government paper to dollar-denominated securities and a general pull-out of Mexican stocks by foreign investors were also factors in the devaluation.

Intel offers to replace chips

Continued from Page 1

the *Pentium chips,* which account for about 60 per cent of Pentium PC sales, have remained strong despite the negative publicity surrounding the flaw, Intel said. The company is, however, concerned that large company purchases planned for the first quarter of 1995 could be delayed by the problem.

Intel is now making new versions of the Pentium chip and expects to be able to respond to requests for replacements within 60 days. The company does not *anticipate any long-term impact* on sales.

Customers wanting their chips replaced will be sent instructions on how to do so themselves, or will have the option of taking their computers to a service centre. The chip replacement offer will remain in effect for the lifetime of the computer.

Intel's customer inquiry numbers are: 01793 696776 in the UK and 1-800-628-8686 in the US.

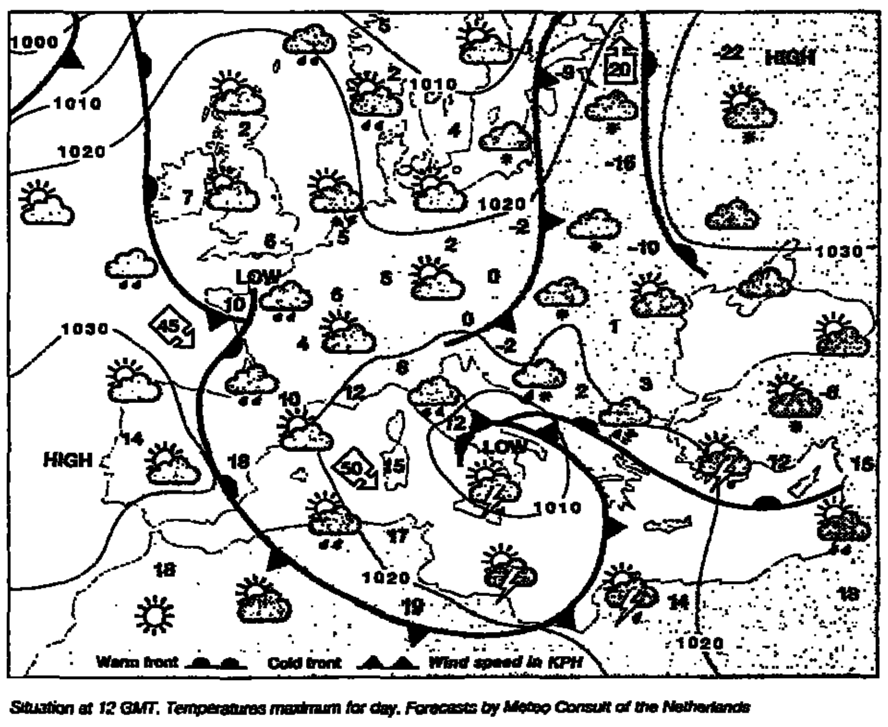
FT WEATHER GUIDE

Europe today

Frigid air from the polar regions will spread across the Scandinavian countries. Cloud and snow will linger over the Norwegian fjords while southern Sweden enjoys sunny spells and scattered flurries. There will be snow showers in the Baltic States, Poland, the Czech Republic, and in Austria. North-westerly winds will bring wintry showers to Denmark, northern Germany, and Holland. A zone of increasing high pressure will ensure calm conditions and scattered sunshine over the British Isles. France will have overcast skies with widespread rain or sleet. Along Spain's north coast, sunshine will be screened by cloud. Rain, showers and occasional thunder will occur in Italy, the Adriatic region, and western Greece. South-west Russia will have spells of sunshine and cloud.

Five-day forecast

High pressure over Britain will increase and will extend into central Europe. Conditions will become more settled over much of continental Europe. Light to severe frost will be common for a few days. Unsettled and windy conditions will persist over the western and central Mediterranean.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	fair	26
Accra	sun	31
Algiers	fair	16
Amsterdam	shower	4
Athens	rain	14
Atlanta	shower	12
B. Aires	fair	25
B.ham	cloudy	4
Bangkok	fair	33
Barcelona	fair	13
Beijing	sun	1
Belfast	cloudy	6
Belgrade	cloudy	2
Berlin	snow	-1
Bermuda	shower	21
Bogota	fair	16
Bombay	sun	32
Brussels	cloudy	3
Budapest	cloudy	0
C.hagen	fair	3
Cairo	fair	18
Cape Town	fair	27
Caracas	cloudy	28
Cardiff	cloudy	8
Casablanca	sun	16
Chicago	fair	8
Cologne	fair	4
Dakar	fair	29
Dallas	fair	16
Delhi	sun	23
Dubai	fair	27
Dublin	cloudy	7
Dubrovnik	rain	10
Edinburgh	fair	3
Faro	fair	17
Frankfurt	cloudy	1
Geneva	cloudy	2
Gibraltar	fair	17
Glasgow	fair	4
Hamburg	shower	3
Helsinki	cloudy	0
Hong Kong	cloudy	18
Honolulu	fair	28
Istanbul	cloudy	6
Jakarta	shower	30
Jersey	rain	10
Karachi	fair	29
Kuwait	fair	17
L. Angeles	shower	17
Las Palmas	fair	21
Lima	cloudy	24
Lisbon	fair	15
London	cloudy	4
Lux.bourg	cloudy	-1
Lyon	cloudy	2
Madeira	fair	18
Madrid	fair	11
Majorca	fair	15
Malta	thund	14
Manchester	cloudy	4
Manila	rain	30
Melbourne	rain	24
Mexico City	fair	22
Miami	shower	26
Milan	fair	6
Montreal	cloudy	8
Moscow	fair	-11
Munich	snow	-1
Nairobi	fair	26
Naples	rain	11
Nassau	cloudy	26
New York	sun	10
Nice	fair	13
Nicosia	fair	11
Oslo	fair	-2
Paris	rain	3
Perth	fair	30
Prague	cloudy	-2
Rangoon	fair	33
Reykjavik	rain	8
Rio	cloudy	29
Rome	shower	13
S. Frsco	fair	12
Seoul	fair	3
Singapore	shower	38
Stockholm	fair	0
Strasbourg	fair	1
Sydney	fair	35
Tangier	sun	16
Tel Aviv	fair	17
Tokyo	fair	9
Toronto	cloudy	10
Vancouver	fair	7
Venice	fair	7
Vienna	sleet	2
Warsaw	snow	-3
Washington	fair	13
Wellington	fair	19
Winnipeg	fair	9
Zurich	cloudy	1

THE LEX COLUMN

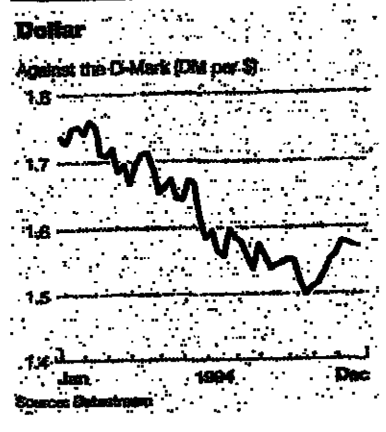
Costly miscalculations

Intel's offer to replace all its latest Pentium microprocessors is a colossal embarrassment. Only a week ago, the world's largest semiconductor manufacturer was vigorously disputing IBM's decision to withdraw shipments of the micro chip due to a minor flaw. Now, it is offering free replacement for all buyers of up to 6m systems containing the chip.

The stock market reaction to the volte-face is curious. Intel's share price surged yesterday, adding $1bn to its market capitalisation. And yet the replacement programme is likely to cost *anywhere between $100m to* $500m, more than a snip even for a company expected to generate net earnings of $2.6bn this year. Investors' nonchalance in part reflects the financial strength of Intel, a group with around $4bn of net cash. However, it has sunk credibility and cash into what was supposed to be the world's most advanced mass produced micro chip. Some $1bn has been spent on developing the chip, a further $150m invested in a global advertising campaign to promote the brand. Sales were expected more than to double in 1995. *After putting this wave of bad* publicity behind it, Intel should still meet that target, as long as the replacement programme leaves customers satisfied.

The share price reaction suggests that investors are giving Intel credit *for biting the bullet* and undertaking a drastic, if humiliating, exercise in damage limitation. But there must be concerns over their naivety in not addressing the problem earlier, and saving both money and face.

FT-SE Index: 3058.1 (+23.7)



US dollar

Investors may be forgiven for experiencing a sense of *déjà vu*: another year is coming to an end and once again economists are expressing optimism about prospects for the US dollar. The prognoses made this time last year proved spectacularly wrong. Is history about to repeat itself?

The new optimism is triggered by the Federal Reserve's aggression on the interest rate front: since short-term rates were raised by a higher than expected 75 basis points on November 25, the dollar has risen sharply against both the yen and the D-Mark. Notwithstanding the Fed's decision to leave short-term rates unchanged yesterday, the expectation now is that rates will rise again by February. Thereafter, dollar support*ers contend, the currency will be sup*ported by a further tightening throughout the year.

This argument looks flawed on a number of counts. US rates have been rising since February, but this did nothing to support the dollar. The currency was undermined by an outflow of cash from bond markets, a pattern *which could repeat itself next* year, the difference being that equities, rather than Treasuries, look vulnerable this time round. The US still labours under a large current account deficit, a deep-seated structural problem which militates against strengthening of the dollar. A third reason for caution is the likelihood that German interest rates will start to rise again from the middle of next year. This will add to the attractions of the D-Mark at the dollar's expense.

De La Rue/Portals

Portals' shareholders may be disappointed its board failed to fight: a contested takeover would probably have raised the final price paid by De La Rue. But in an industry where customers are governments, and discretion is a byword, the damage wreaked on both businesses during a hostile bid could have been significant. Shareholders are being offered a fair price for a fair business.

The rationale for combining De La Rue's printing expertise and Portals' paper technology is impeccable. Governments are increasingly concerned about counterfeit banknotes. De La Rue will be able to marry the two groups' anti-fraud technologies, offering worried customers a comprehensive service. Portals' paper distribu*tion network will also help De La Rue* market its high denomination, high-margin banknotes to governments which are unwilling to invest in expensive technology for low volume print runs. Finally, De La Rue will be able to market verifying machines based on paper technology to clearers and central banks.

Fears that De La Rue is deepening its exposure to paper money when a cashless society is on the horizon are groundless. Use of cash is set to expand rapidly in the developing world, while a cashless first world will remain a pipe-dream in the foreseeable future. Nevertheless, concerns remain. De La Rue needs to allay fears that competing bank note manufacturers will be unwilling to buy paper from its new subsidiary. Given few opportunities for cost cutting, the group will also have to demonstrate the synergies of putting the companies together are real. *The acquisition is sensible if* not sensational.

Rhône-Poulenc

France's largest chemicals company keeps mutating. Its gradual exit from low margin commodity chemicals continued with the sale of its FFr2bn acetics operations. That followed the disposal of its TDI business earlier this month. The disposals, combined with Rhône-Poulenc's strong cash flow, suggest the group should meet its debt cutting targets next year.

The more comfortable debt burden should allow Rhône-Poulenc to sort out its healthcare operations which have severe problems. Last week's US Food and Drug Administration rejection of the cancer treatment Taxotere was a disaster for Rhône-Poulenc Rorer, its majority-owned subsidiary. The drug, which should have generated sales of $300m by 1996, will not now be launched in the US before 1997. Until then, that leaves RPR with a portfolio of old drugs with strictly limited growth prospects. Last *month's Gencell initiative* in gene therapy was strategically correct, but will not generate any new products for five years. An obvious move for Rhône-Poulenc would be to buy the 31 per cent of RPR that it does not own. This would enhance earnings and would free Rhône-Poulenc to sell or merge the business. Alternatively, it could raise equity, acquire another drugs company and drive earnings growth through cost cutting. That is something RPR's management is good at. Whatever happens, Rhône-Poulenc *must deal with the problems at RPR.*

هكذا من الاصل

FINANCIAL TIMES

COMPANIES & MARKETS

Wednesday December 21 1994

IN BRIEF

Hurdles clear for French insurer

The French government yesterday agreed to a restructuring of Comptoir des Entrepreneurs, the heavily loss-making property company, in a deal that clears a large hurdle for the privatisation of Assurance Générale de France, the insurance group. Page 16

Rhône-Poulenc to sell acetics operation
Rhône-Poulenc, the French chemicals group, plans to sell its European acetics business to Acetex, a newly-formed Canadian chemical company. Page 16

Monsanto to buy Merck unit
Monsanto, the US chemicals company, has agreed to pay $1.07bn for a speciality chemicals subsidiary of Merck which will have sales this year of only about $300m. Page 16

Stet expects 30% earnings gain
Stet, Italy's state-controlled telecommunications holding company, announced that its net consolidated profit should reach about L2,000bn ($1.2bn) in 1994, 30 per cent higher than last year. Page 16

Jardine Matheson defends HK delisting
Jardine Matheson's decision to delist from the Hong Kong stock exchange is seen by many as proof that the international trading house does not want to fall under Chinese regulation after the colony's transfer to China in 1997. But the notion is hotly contested by Jardine's senior managers. Page 17

Sharp words from diamond cutters
Sales of uncut diamonds remain near record levels but the market is still in turmoil and cutters continue to complain about lack of profitability. Page 22

Bloom boom
Zimbabwe's flower industry has grown from nothing 10 years ago to exports of more than 7,000 tonnes of cut flowers to brighten the northern winter each year. Page 22

Welbit agrees Berisford offer
Berisford International, the kitchens and joinery group, yesterday announced a hefty 11-for-5 rights issue to fund a £295m ($483.8m) offer for Welbilt, one of the largest commercial kitchen manufacturers in the US. Page 20

UK authorities examine Attwoods
The UK Takeover Panel has asked James Capel, the stockbrokers, for a full report on its involvement in a surprise bid earlier this month by a small Canadian company for Attwoods, the waste services operator. Page 20

SCI bid for Plantsbrook referred to MMC
The UK Department of Trade and Industry has referred the acquisition of Plantsbrook, the funerals group, by Service Corporation International to the Monopolies and Mergers Commission. Page 20

Wessex Water gains 9%
Wessex Water drew the UK water industry interim reporting season to a close yesterday with a 9 per cent increase in profits and 10 per cent dividend rise. Page 20 19

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko	754	+	24
Ballf	768	+	6
Hochtief	540	+	8
Porsche	660	+	5
Siemens	642.5	+	10.5
Falls			
Wella	940	-	7
NEW YORK ($)			
Rises			
Bristol Myers	58¼	+	1⅛
Dell	38⅝	+	1⅛
Hewlett Pack	98¾	+	1⅜
Intel	60⅞	+	3⅛
Falls			
Microsoft	58	-	3⅛
Monsanto	68¼	-	4⅝
PARIS (FFr)			
Rises			
[illegible]	511	+	9
Falls			
BIC	652	-	18
Cr Local	395.1	-	14.3
[illegible]	81	-	10
[illegible]	680	-	13
[illegible]	2290	-	191
TOKYO (Yen)			
Rises			
Dai-Ichi Kangyo	1880	+	30
Ind Bk Japan	2830	+	30
[illegible]	2330	+	30
[illegible]	5750	+	110
[illegible]	5550	+	50
Falls			
[illegible]	1120	-	10

New York prices at 12.30.

LONDON (Pence)			
Rises			
Andrews Sykes	138	+	21
Bridport-Gundry	117½	+	10½
Christies Intl	179	+	7
Eng China Clays	330	+	10
Glaxo	682½	+	22
Kingfisher	458	+	10
Magnum Power	126	+	16
[illegible]	28	+	3
Portals	1025	+	60
Smith New Court	444	+	25
Taylor Woodrow	130	+	8
Falls			
De La Rue	823	-	34
[illegible]	17⅞	-	3⅛
[illegible]	369	-	21
Learmonth Bchtt	95	-	12
[illegible]	465	-	22
SEET	58	-	5
[illegible]	132	-	5

Danone bites into Bolshevik biscuits

By Andrew Jack in Paris

Danone, France's largest food group, plans to add some sweetness to one of the most basic Russian foods as a result of its latest and most ambitious acquisition in eastern Europe announced yesterday.

The food company best known for its yoghurts said it had acquired the majority shareholding in Bolshevik, Russia's largest biscuit maker.

It aims to expand Bolshevik's range of dry biscuits, wafers and crackers with chocolate-coated, filled and other more luxurious varieties.

Bolshevik, originally known as Sioux, was founded by a French entrepreneur who moved to Moscow and started operations in 1855.

Danone said it had no intention of changing the Bolshevik brandname, even though in the former Eastern bloc many streets and products with communist names have been redubbed following the collapse of the former Soviet Union. It said the brandname was very powerful with 30 per cent of the Russian biscuit market. It cited the example of a successful Russian confectionery brand which is still called Red October.

The company refused to provide details of the cost of the purchase. It bought most of the shares from Alfa, a Russian investment fund that acquired a number of shares after Bolshevik was privatised in 1992.

On top of the purchase of existing shares, Danone will make a $10m capital injection, bringing its total shareholding in the enlarged group to 82.6 per cent. The remaining shares will be retained by employees and Russian citizens.

Bolshevik, which employs about 2,500, produces 60,060 tonnes of biscuits and last year reported turnover of $28m. The new money will be used to introduce packaging measures and enlarge the product range.

Danone has been making acquisitions in eastern Europe since 1989, when it launched yoghurt joint ventures in the former eastern Germany, followed by similar operations in the Czech Republic, Hungary, Poland and Bulgaria.

Yesterday's acquisition is the company's first move away from joint ventures in the region and is only its second investment in Russia after a joint venture agreed in May for the manufacture of yoghurt.

Microsoft delays Windows 95

Shares fall 4% as deferred software launch is put off again by months

By Louise Kehoe in San Francisco

Microsoft's share price dropped sharply yesterday when the software company announced a further delay in the launch of Windows 95, a long-awaited new version of the Windows personal computer program.

Microsoft said that shipping of the product may be delayed until August. It had been expected to ship in May or June and already has been delayed by more than a year. The postponement is expected to put off the launch of Microsoft's planned on-line service, the Microsoft Network.

The delay reflects Microsoft's "continued commitment to deliver a vigorously tested product of the highest quality", the company said.

The announcement came in the wake of the discovery of a flaw in Intel's Pentium microprocessor, and Microsoft's disclosure that the calculator program in the current version of Windows is prone to errors.

"We have always said we will ship this product when it is ready, and that is what we are committed to do," said Mr Brad Silverberg, senior vice-president of Microsoft's Personal Systems division. "We want Windows 95 to meet the high standards for product excellence that our customers expect."

A pre-release version of Windows 95 has been shipped to more than 48,000 testers, Microsoft said. The testing program will be expanded this spring. "Feedback from our current beta testers has been excellent, they love the product, but given the sheer breadth of Windows 95, shipping it may take us longer than we had originally anticipated", Mr Silverberg added.

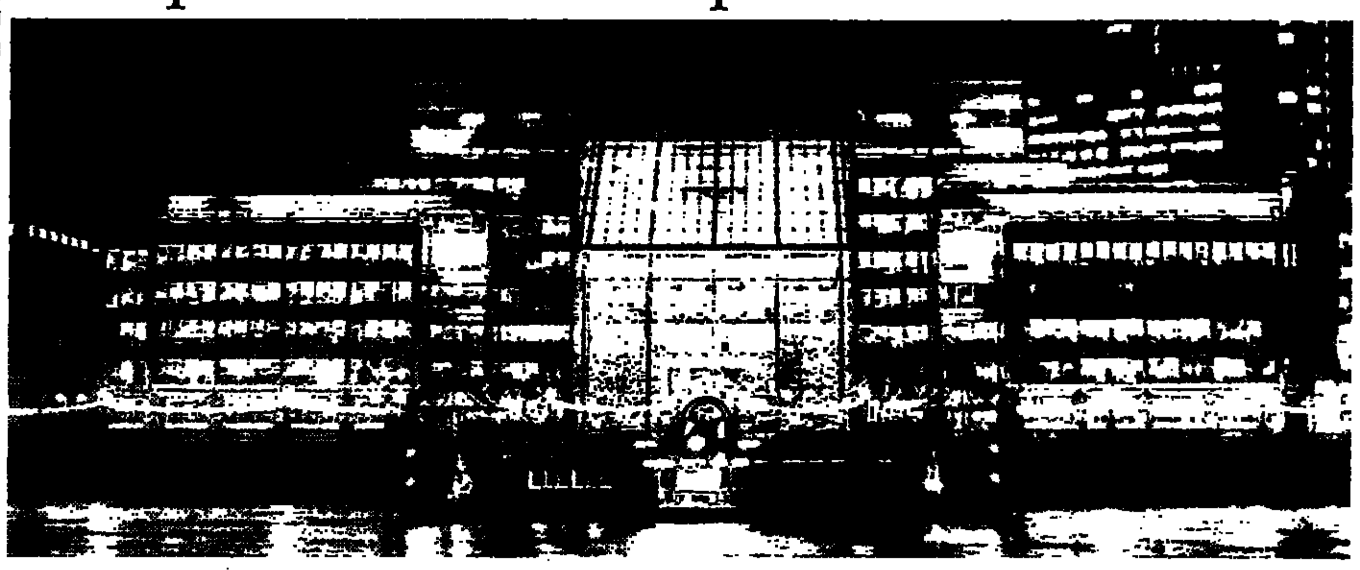
Microsoft said the performance of Windows 95 and the amount of memory space that it requires were not issues in the postponement of the product. "We want to ensure ease of installation and compatibility with thousands of application programs and PC peripherals," Mr Silverberg said.

Analysts called the delay "disappointing" but noted that Windows 95 faces little competition and that launching the product without thorough "bug fixing" could be more damaging. It is not yet clear, however, whether any significant flaws have been found in prototype versions.

Mr Mike Brown, Microsoft's chief financial officer, said: "Our top priority is to deliver a high-quality, reliable product, rather than trying to meet targets for revenues from the product in any particular quarter."

Microsoft has said that it expected to sell as many as 20m copies of Windows 95 in the first 12 months after the program is introduced. Microsoft shares dropped by more than 4 per cent to $59⅞ at mid session yesterday, from Monday's close of $62⅞.

Group bids £1.5bn for prime London sites



Ashley Ashwood

Barings, the UK merchant bank, has made on the behalf of a consortium a £1.5bn ($2.46bn) offer to buy St Martins Property from the Kuwait government. St Martins owns some of London's most valuable property, including London Bridge City (above) on the Thames. Story, Page 16

De La Rue buys Portals for £682m

By Christopher Price in London

De La Rue, the UK security printer, yesterday landed the prize it had been pursuing for eight months when its £682m ($1.12bn) offer for Portals was accepted by the board of the specialist paper manufacturer. The move will give De La Rue, which specialises in printing banknotes, control of one of its main paper suppliers and boost its access to Portals' customer contacts among the world's central banks. De La Rue is also keen to exploit Portals' anti-counterfeiting developments.

Portals' acceptance ends a courtship which began in May when De La Rue initiated talks to pool research facilities.

More formal discussions on a possible offer followed, prompting the Portals share price to rise and a Stock Exchange inquiry into how the news leaked into the market.

The talks failed, reportedly on the price being offered by De La Rue, only to be rekindled earlier this month. On both occasions, De La Rue specified that it would not make a hostile bid for Portals.

Mr Jeremy Marshall, De La Rue's chief executive, said the move held great potential for both companies. "With Portals paper manufacturing and our printing expertise, the enlarged group will be able to enjoy greater technological focus, particularly in anti-counterfeiting, and a strengthening of customer relationships." In particular, it would also enable the group to offer customers a fully-integrated banknote manufacturing service.

He denied that, at nearly 31 times Portals' 1993 earnings per share, De La Rue had offered too much. "This is a long-term strategic deal which is driven by our desire to increase the potential of the business, grow volumes and take advantage of the latest technology." He admitted, however, that Portals' announcement last week of a £100m contract with the Indian government "made us sleep easier" over the price.

De La Rue said it expects the deal to be slightly dilute earnings dilutive slightly for the year to March 31 1995, be neutral in 1995-96 and enhance earnings and earnings enhancing the year after.

Portals shares, which stood at 705p before the latest approach, rose 60p to £10.25 yesterday. De La Rue is paying £403m in cash for Portals, with the rest being paid by a fully underwritten issue of new shares. De La Rue's offer of nine shares and £124 in cash for every 20 Portals shares values the latter at £10.50 per share. Portals shareholders will be offered a full cash alternative of £10.11¼ per share and a mix-and-match facility.

Mr Julian Sheffield, Portals chairman, will join De La Rue as a non-executive director.

Lex, Page 16; Background, Page 18

Tokyo relaxes listing conditions

By William Dawkins in Tokyo

The Tokyo Stock Exchange yesterday announced reforms to its restrictive listing requirements, in an attempt to attract companies from fast-growing Asian economies.

Mr Mitsuhide Yamaguchi, the exchange's president, said the new rules would open the market to smaller companies and radically reduce listing costs. China and other Asian countries had shown strong interest, he added.

A foreign securities company manager, however, pointed out that deeper changes may be needed to stimulate Japanese financial institutions' appetite for foreign equities, another important ingredient in attracting foreign companies to Tokyo.

The changes, to take effect on January 1, include looser financial reporting requirements intended to restrain the exodus of foreign multinationals.

The high cost of being listed in Tokyo, plus the globalisation of equity trading, will have lowered the number of foreign companies listed there from a peak of 127 in 1990, to 91 by next month. No companies from other Asian countries are listed in Tokyo.

From next month, foreign company shares will be permitted on the TSE even if not already listed on their domestic markets. The cost of officially vetting a candidate for a Tokyo listing will be halved to Y1m ($10,000), as will the initial fixed cost of the listing, to Y2.5m. There will also be reductions in the annual cost of maintaining a Tokyo quotation.

The size of companies allowed on the Tokyo market is to be cut to a 10th of the former requirement. From January, they will need net assets of only Y10bn, against Y100bn, and a three-year record of minimum annual pre-tax profits of Y2bn, also a 10th of the former size.

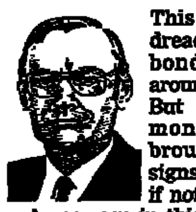
Foreign companies listed in Tokyo will no longer be obliged to translate full annual reports into Japanese, though a shorter Japanese language financial statement will be required for Japanese shareholders.

In an attempt to stimulate investors, the minimum trading unit will be cut from Y3m to Y500,000. From February, there will be a new authorised trading block of 500 shares. Currently, foreign shares can only be traded in blocks of 10, 50, 100 or 1,000.

A similar relaxation in listing rules for foreign bonds was also announced yesterday.

Barry Riley

Lessons of high volatility in the bond markets



This has been a dreadful year for bond markets around the world. But the past few months have brought modest signs of stability, if not recovery.

A year ago in this space I celebrated the wonderful performance of UK gilts in 1993 as long yields sank to 6.5 per cent. It was a bonanza that was unrepeatable in the circumstances of a vigorous economic recovery, I concluded. But I should have been more cautious. The boom in bonds was abruptly reversed as long gilt yields soared up again, briefly touching the 9 per cent level in September.

The overall 200 basis point rise in UK bond yields during 1994 has split two ways. Half represents a rise in real yields, as demonstrated by index-linked gilts, and this is attributable to stronger economic growth. The other half can be blamed on implied expectations of higher future inflation, although this is controversial, and it can also be argued that there have been changes in risk premiums.

Certainly these adjustments appear to be primarily global rather than national. US Treasury bond yields are about 250 basis points higher than a year ago, and rises elsewhere have been 200 basis points in Germany and 150 basis points in Japan.

The scale of portfolio damage has depended upon the duration of the bonds and on the currencies involved. The negative return on the old US Treasury 30-year bond has been 11 per cent so far this year, although the J.P. Morgan US government bond index is only showing about minus 3 per cent.

Damage has been pronounced in a strong currency – the unhedged return on US Treasuries for the Swiss investor was minus 18 per cent at its worst in October. Long-dated Japanese yen bonds were dangerous to hold because the proportional rise in yields was especially high, from a starting-point of only 3.1 per cent. Yet the J.P. Morgan global government bond index is showing a narrowly positive 1 per cent return to the dollar-based investor this year.

The severity of the early 1993 shake-out reflected the forced unwinding of huge speculative positions by hedge funds, banks and securities firms as stop-loss limits were triggered.

Seemingly brilliant professional hedgers of global market risks have emerged as naive amateurs exploited by derivatives salesmen

Trillions were punted on yield curve strategies, and seemingly brilliant professional slicers and hedgers of global market risks have, after hasty visits to their lawyers, emerged reinvented as naive amateur punters exploited by hustling derivatives salesmen.

The eventual consequences of this volatility have yet to be worked out. The Bank of England has swallowed the argument that encouraging an active sale and repurchase, or "repo", market will increase liquidity and reduce the cost of borrowing.

However, David Shaw of Legal & General in London has calculated that on a particular definition – the percentage change during six months in the FT Government Securities Price Index – the early 1994 bear market in gilts was the most severe since the tumble, during freak economic conditions, in 1974.

His conclusion is that the arrival of aggressive new bond market players, overwhelming traditional long-term institutional investors, has raised volatility. The risk premium on bonds over cash has therefore increased (and the risk premium on equities against bonds has fallen). Finance ministries might think about the implications.

Another factor has triggered high volatility, however – the growing role of cross-border investors vulnerable to exchange rate risks. US Treasury bond yields have had to rise a very long way this year because Japanese institutions are refusing to plug the global financing gaps they filled in the 1980s.

Mr William Sterling of Merrill Lynch in New York points out that the total US external financing requirement ran at some $150bn a year in the late 1980s, dipped briefly, but for the past two years has jumped to $280bn annually. If the US is to cover a large part of this deficit by selling financial assets to foreigners, the assets will have to look much more keenly priced.

In 1994, certainly, dollar bonds have become cheaper, and have dragged down bond prices everywhere.

Restructuring of French property group agreed

By Andrew Jack in Paris

The French government yesterday agreed to a restructuring of Comptoir des Entrepreneurs, the heavily loss-making property company, in a deal that clears a large hurdle for the privatisation of Assurance Générale de France, the insurance group.

CdE is to be permitted to remove FFr7bn ($1.3bn) in property provisions from its balance sheet, which will be guaranteed by a combination of the state and its larger creditors and shareholders.

The restructuring is the second in two years for CdE, and follows a FFr5.5bn guarantee provided by the French state in 1993, when the group published losses of FFr823m. Similar losses are expected in the current year.

The government will now underwrite up to FFr4.5bn of the provisions, and can cancel a FFr2.5bn bond issue it promised for the start of next year as part of the previous restructuring plan.

AGF, which currently holds a 29.74 per cent stake in the group, will become the majority shareholder by injecting finance of a further FFr400m.

Further financial guarantees will come from other creditors to CdE, which will have their loans converted into senior debt.

The deal removes an uncertainty in the exposure to losses of the group by AGF, which contributed to the delays in its privatisation.

Last year it took a FFr225m charge as a result of the losses at CdE.

The chairman of AGF said in October that the group was planning for its privatisation by the end of January or the start of February.

Mr Edmond Alphandéry, the minister of economics, has said that he wanted to proceed with the privatisation "as soon as possible", although this will depend on "market conditions", including the position of the bond markets.

Another outstanding issue is the sale of AGF's life assurance products through an effective monopoly thanks to a contract it has with the French post office.

This is currently up for renegotiation and is being contested by other private insurance companies.

Monsanto shares fall after it buys Merck unit

By Richard Waters in New York

Monsanto, the US chemicals company, has agreed to pay $1.07bn for a speciality chemicals subsidiary of Merck which will have sales this year of only about $300m.

Fears that Monsanto was paying too much sent its shares into a sharp fall on the New York Stock Exchange yesterday morning. By lunchtime they had dropped to $68¾, a loss of $6¾. The steep decline also reflected market concerns that the company was shifting its attention away from cutting costs.

Monsanto said it would use cash and debt to buy Kelco, a company which makes stabilising and gelling agents for food and industrial products. The sale is the last in a series of planned disposals of non-core businesses announced by Merck in August.

"It's a great business, but the price is way too high," said Mr Paul Raman, a chemicals analyst at S. G. Warburg in New York. Monsanto was paying about $150m too much for the company, or $1.50 a share, based on Kelco's estimated earnings before tax, interest and amortisation of $120m, he said.

Monsanto said the transaction would be beneficial financially, and brought it a business which had good growth potential and offered synergies with some of its existing operations.

"We knew that it would take some time for the market to understand this acquisition," Monsanto said. The deal would add to cashflow next year, and would enhance earnings per share in 1996, it added. The company said any dilution to earnings per share next year would be minimal, and may be avoided altogether.

The deal could add $800m to Monsanto's debt, which stood at $1.7bn at the end of September. The company plans to pay for Kelco with about half of its cash reserves, which it expects to stand at about $550m at the end of this year, with the rest financed with mainly short-term debt.

Group bids £1.5bn for London sites

By Robert Peston in London

A £1.5bn ($2.45bn) offer to buy St Martins Property, a property business owned by the Kuwait government, has been made by Barings, the London merchant bank, on behalf of an investment consortium.

St Martins owns some of central London's most valuable property, particularly the strip on the south bank of the River Thames known as London Bridge City. Only half of that riverside site has been developed.

It owns other prime City of London developments, such as the KIO's St Vedast House headquarters, together with offices, retail developments and industrial units in the UK and on the continent.

Although Barings has yet to receive a definite response from the Kuwait government, a senior Kuwait official last night appeared hostile to the idea of selling the business.

Dr Yousef Al-Awadi, the general manager of the Kuwait Investment Organisation, the Kuwait government's international investment arm, said the government was not soliciting offers: "As far as we are concerned, it is not for sale," he said.

The offer was made in late November at a meeting in Kuwait between Barings, accompanied by the London arm of French bank Credit Lyonnais, and Mr Ali Rashid Al-Badr, who is in overall charge of the Kuwait government's investments. It was repeated in a fax sent just over a week ago.

The value of the assets is difficult to establish, because the bulk is held directly by the Kuwait government through a nominee company, called St Martins Property Investments, and therefore the value is not disclosed in accounts filed with UK authorities.

The assets are held in this way so that Kuwait can benefit from a convention that assets owned directly by a sovereign or government are immune from taxes. If St Martins' assets were held by a UK-registered company, they would be liable for UK corporation and capital gains taxes.

A former Kuwait government official said yesterday that the properties were valued at £1.9bn at their peak in the late 1980s, before the fall in property prices.

Last year, the St Martins group paid an estimated dividend of £60m to Kuwait, although this year's payment is expected to be lower.

A financier with a close knowledge of St Martins said that the property group's development is being held back by a shortage of capital.

The Kuwait government bought St Martins in the autumn of 1974, in a bidding contest with property group Commercial Union.

Since the 1991 Gulf war, Kuwait has been realising some of its more liquid investments, although has to date retained the majority of assets, such as St Martins, which are not quoted on the stock market.

Stet expects 30% earnings gain

By Andrew Hill in Milan

Stet, Italy's state-controlled telecommunications holding company, announced yesterday that its net consolidated profit should reach about L2,000bn ($1.2bn) in 1994, 30 per cent higher than last year.

The announcement comes in the wake of Stet's launch of an international newspaper advertising campaign, aimed at softening up investors and impressing potential strategic partners ahead of further privatisation in 1995.

Following a board meeting yesterday, the company said it expected turnover to surpass L34,000bn for 1994. In 1993, it announced a net consolidated profit of L1,539bn on turnover of L29,800bn. The underlying increase in turnover this year will be about 9 per cent, if the effect of absorbing Iritel, the old government department responsible for international and long-distance traffic, is stripped out.

Stet said debt would come down to just over L19,000bn by December 31, against L22,085bn at the end of last year.

The group is one of Italy's five largest quoted companies, but 64.2 per cent of the shares are held by IRI, the state holding company.

Stet in turn owns 62 per cent of Telecom Italia, the quoted operating company, which came into being this year following the merger of five separate state-controlled telecoms companies, as well as holdings in software, multimedia and equipment subsidiaries and international joint ventures.

The Italian government committed itself in October to sell a further tranche of shares in Stet by June next year. Analysts fear political turmoil could put that timetable in jeopardy, particularly if the establishment of a regulatory authority for the sector is delayed.

Rhône-Poulenc to sell acetics operation

By David Buchan in Paris

Rhône-Poulenc, the French chemicals group, plans to sell its European acetics business to Acetex, a newly-formed Canadian chemical company. The deal is part of the French group's strategy of moving out of low-margin basic commodity chemicals.

Acetex was recently formed by Mr Brooke Wade, former head and founder of Methanex which has become the world's largest producer of methanol, the raw material used in making acetics. The latter substance is used in textiles, adhesives, paint, perfume and other products.

The planned sale includes Rhône-Poulenc's manufacture of acetic acid and monovinyl acetate at Pardies in south-west France with annual capacity of 480,000 tonnes.

In addition, there is a franchise to buy the output of Rhône-Poulenc's solvent factories in eastern and central France, which will stay in the French group's hands, and its 40 per cent stake in Erkol, a Spanish company which makes polyvinyl alcohol.

Neither Rhône-Poulenc nor Acetex would put a price on the sale, which for the moment excludes the former's smaller acetics business in Brazil.

This operation has an annual capacity of 130,000 tonnes of acetic acid and monovinyl acetate. Total turnover of Rhône-Poulenc's European and Brazilian acetics operations is about FFr2bn ($369m) a year.

Acetex said it might be interested in buying the Brazilian operation but this was not under negotiation.

Last August, Mr Jean-René Fourtou, chairman of Rhône-Poulenc, said he hoped by the end of 1995 to sell $1bn-$1.5bn worth of assets, mainly in basic commodity chemicals, to reinforce the group's presence in specialised higher-value "performance" products.

Yesterday, the company said that although it was the third largest world producer of acetics, it was well behind Hoechst of Germany and British Petroleum, and that to improve its position would require large resources which it preferred to use elsewhere.

Rhône-Poulenc recently announced the sale of its TD1 polyurethane foam business to Arco, the US chemical group.

Lex, Page 22

Court seeks talks on Cadillac debt

By Robert Gibbens in Montreal

An Ontario court has ordered Goldman Sachs and Cadillac Fairview, one of Canada's biggest property groups, to negotiate further on ways to restructure more than C$3bn (US$2.2bn) of Cadillac debt.

The New York investment banker went to court on Monday in Toronto asking the judge to put Cadillac under the Companies Creditors' Arrangement Act.

Goldman indirectly holds C$1bn of Cadillac's senior debt on which interest is in default, and could legally force Cadillac to reorganise under court protection.

The judge gave temporary assent, but Cadillac's lawyers soon obtained a reversal.

Mr Justice James Farley directed Goldman and Cadillac to meet this week and negotiate on the financial restructuring.

Cadillac is protected from legal action until both parties reappear in court this Friday.

Goldman believes Cadillac's restructuring could be achieved faster under court protection, with better terms for senior creditors. Debt would be converted to equity and senior debt holders would end up with 93 per cent control.

Arthur Andersen widens lead

By Jim Kelly, Accountancy Correspondent

Arthur Andersen, the US based accountancy firm, has widened its lead over its competitors in terms of worldwide fee income, according to the annual survey undertaken by the International Accounting Bulletin.

Andersen's fee income rose 12 per cent to $6.74bn allowing it to increase its lead at the top of the league. Nearly 50 per cent of fees came from Andersen Consulting, the business services arm.

The bulk of Andersen's growth was registered in the Americas and the Asia-Pacific regions.

"The survey recorded a Big Six average fee income growth of 4.6 per cent. This confirms that the effects of the recession, which took its toll on accountants' incomes in the early part of the decade, have abated," said Lafferty Publications, survey publishers.

Results from KPMG Peat Marwick in the UK showed signs of a strong recovery. It recorded a 5 per cent growth in fee income to £516.4m ($846.89m) for the year to September 1994 from £491.8m in the previous year.

Worldwide, KPMG, which until last year was the highest earner, saw fee income grow 1.7 per cent to $6.1bn. In third place was Ernst & Young at $6.01bn – an increase on the previous year of 3 per cent.

In fourth place was Coopers & Lybrand with a 4 per cent rise to $5.5bn, with Deloitte Touche Tohmatsu International in fifth at $5.2bn. Price Waterhouse, BDO Binder, Grant Thornton International, and Moores Rowland International followed behind.

RSM International, placed tenth, grew 14 per cent to reach fee income of $784m.

VW sees small profit this year

The Volkswagen group expects to show a small net profit this year on turnover up around 4 per cent to almost DM80bn ($51bn), writes Christopher Parkes in Frankfurt.

The German company, which last year lost DM1.94bn, said yesterday it had increased deliveries of vehicles to customers by about 200,000 to 3.3m, gaining most in north American and Asia-Pacific markets.

In western Europe, where market share fell half a percentage point to 16 per cent this year, sales grew only 2.3 per cent.

INTERNATIONAL COMPANIES AND FINANCE

The end of a chapter at Jardine Matheson

The group is delisting from Hong Kong's stock exchange, writes **Simon Holberton**

It might have been the stuff of a novel by the late James Clavell. After Jardine Matheson, the international trading house, provided such a rich source of material for his pot-boilers on Hong Kong – *Taipan* and *The Noble House* – its delisting from the colony's stock exchange at the end of this month would surely have been a source of inspiration.

The theme is clear. Jardine's decision to delist because it did not want to fall under Chinese regulation after the colony's transfer to China in 1997 is seen by many as a mirror image of a broader British decline in Hong Kong.

The company rose to pre-eminence under British rule: now that rule is on the wane, so too are Jardine's fortunes, according to this view.

The idea the Jardine Matheson group of companies is "leaving Hong Kong" was reinforced by the current bid by Trafalgar House, the UK construction and shipping group, for Northern Electric, the UK power company. Trafalgar is effectively controlled by Hongkong Land, a Jardine company.

But the notion is hotly contested by Jardine's senior managers. They maintain 60 per cent of the company's profits derive from Hong Kong and China. That will remain the case for some time to come.

They employ 56,000 people in Hong Kong and note that Hongkong Land would not be planning a multi-billion dollar investment in the colony's container port if Jardine were "leaving".

Another, more dominant view in the financial community is that Jardine's management has taken a 12-gauge shot gun, carefully aimed it at its collective foot, and pulled the trigger. The company, according to this view, has frittered away a reservoir of Chinese goodwill towards it, and unnecessarily handicapped itself for life after 1997. That the Chinese have put an effective halt to its development of the container port is seen as evidence of this.

These observers point out that Jardine could have built on the contacts of Sir John Keswick, the uncle of Henry and Simon who today run the group from London, who was an intimate friend of Zhou Enlai, China's revered prime minister under Mao. Instead, since 1984 when Henry and Simon moved the company's domicile to Bermuda, Jardine has gone out of its way to cock a snoot at Hong Kong's incoming landlord, the observers say.

It seems not a day passes without some mainland Chinese criticism of the company in the colony's press. Most recent was the commentary which appeared in Bauhinia, a monthly magazine published under auspices of the Xinhua news agency, Beijing's unofficial embassy in Hong Kong.

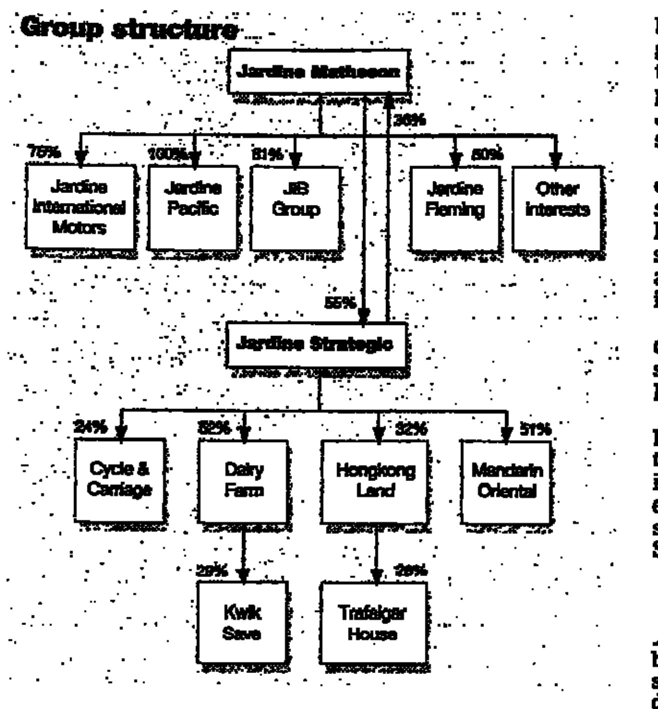
Bauhinia contrasted Jardine's behaviour with that of other British companies, such as Swire, Hongkong Telecom, Inchcape and Hongkong Bank. Jardine was portrayed as "fearful" of 1997 and lacking confidence in Hong Kong after the transfer.

Mr Alasdair Morrison, Jardine taipan in Hong Kong, says of the bad atmosphere surrounding the company's relations with China: "You have to separate rhetoric from the underlying business reality.

"I was recently told during a visit to Beijing that we were welcome to do business in China," he adds.

"Business there has been going well. We have more than 60 joint ventures and a number of new ones were finalised in the past six months. We are expanding our trading and services business in China, and Hongkong Land is looking to invest in property. Our joint ventures in China employ about 10,000 people." Turnover, including associates of the group, is about US$1bn.

Group structure



Of the associates he mentions the most important is Trafalgar House. It is doing big business on the mainland, but Jardine Matheson only owns a net 4.57 per cent of the company. That said, Jardine, of all the big British companies based in Hong Kong, is probably doing most in China. It has interests in motor vehicle distribution, aviation and shipping, trading and distribution, and engineering and construction.

More than its interests in China, many analysts like the spread of Jardine's businesses, and, against a background of rising interest rates, the low debt on its balance sheet. The combination of diversified businesses and low debt, together with forecast earnings' growth of between 14-15 per cent over the next few years, leads many to rate Jardine as a good "defensive play".

"I put out a 'buy' recommendation a week ago because it is so cheap," says Mr John Godfray, conglomerates analyst at Kleinwort Benson Securities in Hong Kong. But even Mr Godfray concedes many clients do not want to know about it. "It's not an index stock," he says.

The Jardine group has lost its position in the Hang Seng index of leading Hong Kong stocks. This month, Jardine Matheson, and three others in the group, were deleted from the Morgan Stanley Capital International index for Hong Kong. It will, however, remain a constituent of the Hong Kong index of the FT-Actuaries World Index.

The Keswicks attempt to insulate the group from an unwelcome takeover has, from Morgan Stanley's point of view, made the Jardine group effectively stateless. It will not be included in any other Morgan Stanley index, not even the one it calculates for Singapore – the market to where Jardine hopes its Hong Kong share trading will migrate.

Morgan Stanley says the act of inclusionor exclusion of a stock from one of its indices has a short-term impact on share price performance, although the long-term impact is negligible. Jardine hopes so.

The company has spent a considerable sum on informing shareholders of the end to Hong Kong trading.

This includes footing the HK$2m (US$259,000) cost of transferring all Hong Kong registered shares to Singapore, to ensure the market for its shares does in fact migrate to Singapore.

An elaborate, and to the shareholder costless, set of procedures has been established to ensure shareholders can deal in Jardine stock.

Mr Neil McNamara, Jardine company secretary, says: "There will be no day that an investor cannot trade Jardine Matheson or Jardine Strategic shares because the scrip is in transit."

But the fact remains that the natural market for Jardine's stock is Hong Kong. Up to 85 per cent of the worldwide turnover in its shares occurs in Hong Kong, with the rest in London. Like the Chinese state enterprises listed in New York, the company might find trading in its shares evaporates and its share price languishes.

Unlike those companies, however, Jardine can be reasonably confident that Hong Kong stockbrokers will continue to research the company and its prospects.

The long-term refuge of its share price lies, therefore, in the efficient operation of the market; its shareholders have to hope the market, spotting a mis-priced stock, corrects it.

Slocan rejects C$715m takeover bid by Canfor

By Bernard Simon in Toronto

Slocan Forest Products of Vancouver has dismissed a C$715m (US$511m) takeover bid by Canfor Corp, Canada's biggest lumber company, aimed at creating one of the world's biggest sawn timber producers.

Rejection of the share-swap offer could set the stage for a protracted struggle for Slocan, which has no controlling shareholder.

Canfor has offered to swap each Slocan share for 0.935 of its own common shares. This amounts to a one-third premium on Slocan's share price prior to the bid. Canfor's offer is due to expire on January 10.

Describing the Canfor bid as a "gamble" for Slocan shareholders, Mr Irving Barber, Slocan chairman and chief executive, said they "would be at the mercy of the discretionary conditions established by Canfor".

The conditions include approval by British Columbia's forestry ministry on terms acceptable to Canfor.

"At the end of the day, Canfor will have an option to back out of the deal four months later," Mr Barber said.

Canfor has proposed to conclude the deal by initially issuing deposit receipts, which would be converted into shares only after regulatory approvals.

Former Kidder chief to run Travelers unit

By Richard Waters in New York

Mr Michael Carpenter, the former chairman of Kidder Peabody who was ousted from the US investment bank earlier this year, re-emerged yesterday in a senior position at Travelers, the broad-based financial services group.

The British-born executive will run Travelers' life insurance and annuity businesses, which the company said would generate premiums this year of more than $2bn.

He has also been named an executive vice-president of the group, making him one of Travelers' most senior executives.

The company said he would work closely with Mr Sanford Weill, who has assembled the Travelers group through a series of acquisitions, on planning and strategy issues.

Mr Carpenter had been chairman and chief executive of Kidder for nearly five years, and had been responsible for attempts to transform the General Electric subsidiary into a big bond trading house.

Kidder eventually foundered on the discovery of what it claimed was a big bond trading fraud, and on the collapse in bond markets earlier this year.

Mattel to shed 1,000 jobs, take $70m charge

By Richard Tomkins in New York

Mattel, the US toy manufacturer which outbid Hasbro in a battle for J. W. Spear of the UK in July, has announced it was cutting 1,000 jobs from its international workforce of 22,000 in an attempt to reduce costs and increase profitability.

It said the cuts would produce a pre-tax restructuring charge of about $70m in the year just ending.

However, the increase in efficiency would produce pre-tax savings of about $25m next year and greater amounts thereafter.

In the year to December 1993, Mattel had net income of $117m on sales of $2.7bn, but reported that the figure would have been $226m were it not for the costs of absorbing Fisher-Price, a toy company it took over at the end of 1993.

Mattel said it expected this year's results from operations to make 1994 the sixth consecutive year of record sales and earnings. It also announced a stock split and 25 per cent increase in the quarterly dividend to 6 cents a share.

Mattel said the restructuring would involve the consolidation of manufacturing operations and the reduction of headquarters expense and support functions around the world.

US bank cancels contracts

By Richard Waters

Bankers Trust, the US bank which recently bowed to regulators over some parts of its derivatives activities, has agreed to cancel two foreign currency derivative contracts sold to a customer in the US.

The customer, Federal Paper, said it was planning to take a $12m pre-tax gain in the current quarter following the cancellation of the two contracts.

It had earlier reported pre-tax losses of $19m on the contracts, which it said were forward contracts (agreements to buy or sell a currency at some time in the future) and caps (option-type contracts which put a limit on an interest rate or foreign currency liability).

● Eastman Kodak said it had extinguished a further $1.7bn of debt, taking to $6.4bn the total debt it had erased this year and completing its debt-reduction programme.

Command buys energy stake

By Nikki Tait in Sydney

Command Petroleum, the Australian energy exploration and development company, has bought a 4.33 per cent stake in Crusader, another listed energy group whose primary interests are South Australia's Cooper Basin.

Command said the 4.1m shares had been bought during the past six months, at an average price of A$1.21 a share.

The company's total outlay on the stake stood at A$4.97m (US$3.86m).

Crusader, 49 per cent owned by Triton Energy in the US, closed 1 cent higher on the news, at A$1.41.

Command was unchanged at 42 cents.

In November, there were significant board changes at Crusader, with three local directors departing and being replaced by Triton executives, giving the Dallas-based group control of the Crusader board.

CONTRACTS & TENDERS

PERSONAL

Chase Manhattan sees revenue dip in fourth quarter

Chase Manhattan, the US bank, said it expected to report substantially lower trading revenues in the fourth quarter than in the third, but this would be partly offset by other revenue items, Reuter reports from New York.

Chase also said that other business areas, excluding trading, would report fourth-quarter revenue trends that would be much the same as in the third quarter.

Chase's trading revenues were $188m in the third quarter, $151m in the second, $179m in the first quarter, and $167m in the 1993 fourth quarter.

Chase previously said it would take a $20m fourth-quarter restructuring charge from buying the American Residential mortgage company and that it would have $100m in pre-tax costs from a voluntary retirement programme.

Chase said the $100m in fourth-quarter expenses would be offset by other revenue items, such as the previously announced sale of Chase Florida, resulting in a non-material impact on earnings.

Analysts generally expect the fourth quarter to be a poor one for trading revenues at most banks because of difficult trading conditions, particularly in bond markets.

Last week, J.P. Morgan said it also expected "substantially reduced" trading revenues in the fourth quarter from the third quarter's $282m.

It also said that, mostly as a result of this, fourth-quarter earnings would be lower than third-quarter earnings.

Macquarie Bank aims for 1996 listing

By Nikki Tait in Sydney

Macquarie Bank, the Sydney-based investment bank owned by institutional shareholders including Hill Samuel of the UK, said yesterday it would list on the Australian Stock Exchange by the end of 1996. It added that it was unlikely to seek significant new capital as part of the process.

Mr David Clarke, chairman, said the listing's main purpose would be "to accommodate the desire of the bank's shareholders to see a more liquid market for the shares".

The bank, he added, regarded its capital base as "extremely strong" and, at this stage, did not plan to raise any significant new capital when it lists.

The bank had indicated it would canvass shareholders about the listing option in early-1995. However, it said yesterday this process had already been done in a more informal fashion.

Mr Allan Moss, managing director, said the majority had been in favour, and were relaxed about the timing "provided it was" within a reasonable period".

PowerGen buy-back to ease stake sale plans

By Richard Lapper

Confirmation yesterday that PowerGen intends to buy back 8 per cent of its shares should ease the way for the government's planned disposal of its stake in the power generators next year.

The news, expected after a similar announcement by National Power last month, should make the shares more attractive to investors by enhancing earnings per share.

Another feature of the deals – announced last week – should also increase the prospects of success by increasing competition among banks appointed to distribute the stock.

The structure of the distribution syndicate is both smaller – only 17 banks are involved – and less hierarchical than that deployed so far in international equity issues.

This "will ensure the most effective distribution for both international offers, promoting healthy competition between managers," said a spokesman for BZW and Kleinwort Benson, the joint global co-ordinators and bookrunners.

Alongside these two banks, four international managers – Cazenove, Paribas, UBS and S. G. Warburg – have been named to run the offering in the UK.

Five banks – Goldman Sachs, Merrill Lynch, J. P. Morgan, NatWest Markets and RBC Dominion – will manage the sale in North America, while six other banks – Argentaria, Mediobanca, Flemings, Lehman Brothers, Nikko and WestLB – will manage the sale in the rest of the world.

Two borrowers brave subdued conditions

By Graham Bowley

The Christmas slowdown in the eurobond market continued yesterday, with only two borrowers braving the subdued market conditions with highly structured deals.

SMM, a special purpose vehicle backed by debt and equity assets, launched a five-tranche multi-currency offering via J. P. Morgan.

The issue, which included fixed-rate and floating-rate dollar tranches and sterling, D-Mark and Swiss franc floating-rate tranches, was targeted at specific investor groups, a syndicate official at J. P. Morgan said.

The offering met with interest from institutional accounts, with a number of large block purchases in continental Europe, he said.

The main $719m tranche of two-year floating-rate notes offered a coupon of 12½ basis points over three-month Libor.

Nippon Credit launched a $150m issue of five-year credit enhanced performance bonds

INTERNATIONAL BONDS

for a separate special purpose vehicle. The offering found demand from institutional investors worldwide, Nippon Credit said.

The Canadian province of Alberta has established a $1.5bn medium term note programme, Merrill Lynch, which arranged the deal, said in a statement.

The programme will allow for the distribution of notes into the US, the euromarkets and the Canadian market. The notes can be denominated in a variety of currencies with a maturity of up to 15 years, Merrill Lynch said.

In a similar move, Credit Suisse announced a $1.5bn multi-currency medium-term note programme.

Elsewhere, the devaluation of the Mexican peso had little impact on spreads on Mexican eurobonds, analysts said. The effect on confidence was greater in the more liquid Brady bond market where bond prices fell by about ¾ point before recovering slightly.

Unibanco Leasing launched a $50m issue of three-year FRNs offering 330 basis points over six-month Libor.

All eyes turn to key Fed meeting

By Conner Middelmann in London and Lisa Bransten in New York

With one eye on the meeting of the Federal Reserve's open market committee and the other on the imminent Christmas break, most European bond markets ended a lethargic session little changed.

■ Even in Italy, where political problems continued to simmer, prices were little changed in quiet dealings. Ahead of crucial confidence votes in the parliament, expected this week, "this could be the lull before the storm," said one dealer.

In a move to steal his opponents' thunder, Italian prime minister Mr Silvio Berlusconi signalled his intention to seek a parliamentary vote of confidence in his government expected as early as today.

Although Mr Berlusconi's government already faces motions for three no-confidence votes, a cabinet spokesman said that under Italy's constitution a motion for a confidence vote takes precedence over a no-confidence vote. If Mr Berlusconi loses the vote and resigns, he would demand immediate elections, the spokesman said.

Many observers said that if the government loses the vote – which is seen as increasingly likely – the president might set up an interim "institutional government" to restore political calm. Ultimately, however, "another general election is likely in the spring, irrespective of whether Berlusconi survives the vote or an institutional government is established," said Mr Ken Wattret, international economist at HSBC Markets.

The market shrugged off the final approval by the lower house of Italy's parliament to the 1995 budget, which now becomes law. The budget, consisting of three separate items of legislation, aims to reduce next year's deficit by L48,000bn to L138,600bn.

The March BTP futures contract on Liffe ended at 98.99, down 0.01 point on the day.

■ German government bonds ended a lacklustre session little changed in spite of lower-than-expected money supply data. Annualised M3 growth fell to 6 per cent – the top of the Bundesbank's target range – in November, from 6.8 per cent in October.

The market also shrugged off the Bundesbank's announcement of a 10-year bund issue planned for December 28 and 29 – the government's traditional New Year bond. Some were disappointed that Bonn was not issuing a 30-year bond.

"The Finance Ministry said last year that they would issue at least one 30-year bond each year, but they haven't," said a Frankfurt dealer, adding: "The market needs fresh 30-year supply to keep the long end liquid." The 10-year March bund future on Liffe closed at 89.65, down 0.05 point.

■ UK gilts ended a slow day slightly weaker on thin volume. Prices softened slightly on strong M4 lending data for November, but dealers reported little trading activity. "People are mainly tying up loose ends and closing their books," said one trader. However, another dealer reported some demand for index-linked gilts, which rose by about ¼ point. The March long gilt future on Liffe ended at 102⅛, down ¼ point.

■ US Treasury prices were mixed yesterday morning as traders waited to see if the Federal Reserve would raise interest rates at the meeting of its open market committee.

At midday, the benchmark 30-year government bond was down 4/32 at 95 [illegible] yielding 7.845 per cent. At the short end of the market, the two-year note was up 1/32 at 99 7/32, yielding 7.545 per cent.

Although most on Wall Street believed the Fed would wait for the new year to increase interest rates again, there was *some feeling that the* central bank could put rates up 50 basis points at the meeting. The Fed has already raised the target Federal funds rate six times this year from 3 per cent in January to the current 5½ per cent.

Since the last FOMC meeting, the yield spread between two-year and 30-year bonds narrowed as the market became convinced that the Fed's tightening would restrain the robust economy. Over the past week it widened slightly after mild inflation figures led investors to bet against a rate increase in December.

Release of the October trade figures drew only muted reaction. The Commerce Department reported the trade deficit widened to $10.1bn from a revised September figure of $9.35bn. In spite of the increase in the trade deficit, the market held steady as the figure was well within the range of consensus estimates.

Syndicated loan for Finmeccanica

By Martin Brice

Finmeccanica, Italy's state-controlled engineering group, has returned to the international syndicated loan market after an absence of several years. A $200m loan for the group, arranged by NatWest Markets, was increased to $250m after being oversubscribed in syndication.

The three-year loan was priced at 40 basis points over the London interbank offered rate, and will refinance a short-term domestic bilateral loan. It is extendible to five years at a price of 45 basis points over Libor. Underwriters were Banco di Napoli, NatWest Markets, Nomura International, and Société Générale, with 18 other banks in the syndicate.

● The National Bank of Egypt took part in a DM130m syndication loan for the Israeli government, a Bank Leumi spokesman said, Reuter reports from Jerusalem.

The credit line was organised by Bank Leumi UK and Chemical Bank. This is the first time in five years that the Israeli government has raised money abroad through a consortium of banks.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.500	09/04	92.6700	+0.410	10.15	10.42	10.73
Belgium		7.750	10/04	95.7800	-0.100	8.40	8.35	8.37
Canada *		9.000	12/04	99.6000	+0.200	9.06	9.20	9.14
Denmark		7.000	12/04	88.2500	-0.170	8.82	8.73	8.78
France	BTAN	8.000	05/98	100.7100	-0.110	7.69	7.27	7.47
	OAT	7.500	04/05	95.4000	-0.040	8.17	8.14	8.15
Germany Bund		7.500	11/04	99.8100	-0.270	7.51	7.49	7.49
Italy		8.500	08/04	80.2500	-0.100	12.02†	12.01	11.87
Japan	No 119	4.800	06/99	103.8400	-	3.90	3.82	4.05
	No 164	4.100	12/03	96.8600	+0.160	4.59	4.56	4.74
Netherlands		7.250	10/04	97.2400	-0.040	7.65	7.68	7.58
Spain		10.000	02/05	86.6300	-0.620	11.49	11.31	11.17
UK Gilts		6.000	08/99	90-18	-3/32	8.49	8.53	8.37
		6.750	11/04	88-13	-4/32	8.51	8.56	8.53
		9.000	10/08	104-05	-4/32	8.48	8.56	8.54
US Treasury *		7.875	11/04	100-16	+8/32	7.80	7.85	7.62
		7.500	11/24	96-00	-3/32	7.85	7.88	8.14
ECU (French Govt)		8.000	04/04	83.7600	-0.210	8.59	8.59	8.68

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
Prime rate	8½	One month	5.48	Two year	7.56
Broker loan rate	6½	Two month	5.82	Three year	7.71
Fed.funds	5⅝	Three month	5.73	Five year	7.78
Fed.funds at intervention	-	Six month	6.58	10-year	7.81
		One year	7.13	30-year	7.85

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	109.98	110.02	-0.22	110.14	109.96	73,920	138,114
Jun	109.38	109.44	-0.22	109.38	109.38	870	2,955
Sep	109.38	109.44	-0.22	109.38	109.38	-	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Mar	Calls Jun	Puts Jan	Puts Mar	Puts Jun
110	0.90	1.78	1.88	0.18	1.02	1.86
111	0.28	1.20	1.49	0.58	1.45	2.40
112	0.07	0.76	-	1.30	1.98	-
113	0.02	0.45	-	-	2.65	-
114	0.01	0.24	-	-	-	-

Est. vol. total, Calls 10,074 Puts 12,749. Previous day's open int., Calls 187,880 Puts 150,879.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	89.76	89.69	-0.01	89.84	89.57	33017	170578
Jun	89.15	89.09	-0.01	89.16	89.16	90	785

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
8950	0.28	0.75	0.97	1.16	0.09	0.56	0.78	1.57
9000	0.06	0.49	0.72	0.94	0.37	0.80	1.03	1.85
9050	0.01	0.32	0.52	0.77	0.82	1.13	1.33	2.18

Est. vol. total, Calls 8821 Puts 3963. Previous day's open int., Calls 170455 Puts 123923

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.73	98.90	-0.10	99.00	98.66	6456	46697
Jun		98.20	-0.10			0	20

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
9850	1.97	2.36	1.57	2.68
9900	1.69	2.13	1.79	2.93
9950	1.43	1.92	2.03	3.22

Est. vol. total, Calls 110 Puts 181. Previous day's open int., Calls 18622 Puts 14067

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.63	86.37	-0.05	86.65	86.32	21,272	14,419
Mar	85.51	85.14	-0.64	85.65	85.10	29,912	36,852

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102-30	102-26	-0-05	102-30	102-27	766	17194
Mar	102-12	102-04	-0-08	102-15	102-03	10700	105264
Jun		101-04	-0-08			0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
102	1-29	2-02	1-21	2-58
103	0-62	1-41	1-54	3-33
104	0-39	1-19	2-31	4-11

Est. vol. total, Calls 1487 Puts 880. Previous day's open int., Calls 23846 Puts 29557

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	80.62	80.72	-0.26	80.90	80.62	1,878	5,387

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	100-09	100-05	+0-05	100-13	100-05	17,007	28,162
Mar	99-22	99-18	+0-04	99-28	99-16	96 453	346,356
Jun	99-08	99-04	+0-04	99-09	98-30	454	13,492

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	108.34			108.54	108.34	1463	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Dec 20	Day's change %	Mon Dec 19	Accrued interest	xd adj. ytd		Low coupon yield Dec 20	Dec 19	Yr. ago	Medium coupon yield Dec 20	Dec 19	Yr. ago	High coupon yield Dec 20	Dec 19	Yr. ago
1 Up to 5 years (24)	119.32	-0.02	119.34	1.55	11.14	5 yrs	8.51	8.49	5.84	8.60	8.48	5.85	8.69	8.66	5.94
2 5-15 years (22)	140.35	-0.10	140.50	1.81	12.57	15 yrs	8.38	8.35	6.37	8.51	8.49	6.50	8.72	8.71	6.69
3 Over 15 years (9)	158.01	-0.12	158.25	2.92	12.21	20 yrs	8.53	8.52	6.47	8.51	8.49	6.54	8.65	8.64	6.71
4 Irredeemables (6)	178.54	-0.10	178.71	1.79	13.71	Irred.†	8.41	8.40	6.61						
5 All stocks (61)	137.35	-0.08	137.48	1.85	12.15										

Index-linked	Tue Dec 20	Day's change %	Mon Dec 19	Accrued interest	xd adj. ytd		Inflation 5% Dec 20	Dec 19	Yr. ago	Inflation 10% Dec 20	Dec 19	Yr. ago
6 Up to 5 years (2)	187.08	+0.07	186.95	1.10	5.07	Up to 5 yrs	3.96	3.99	1.33	2.88	2.88	1.05
7 Over 5 years (11)	173.80	+0.08	174.03	0.56	5.34	Over 5 yrs	3.84	3.85	2.93	3.64	3.65	2.75
8 All stocks (13)	174.29	+0.08	174.48	0.82	5.30							

Debentures and Loans	Tue Dec 20	Day's change %	Mon Dec 19	Accrued interest	xd adj. ytd	5 year yield Dec 20	Dec 19	Yr. ago	15 year yield Dec 20	Dec 19	Yr. ago	25 year yield Dec 20	Dec 19	Yr. ago
9 Debs & Loans (77)	129.61	+0.14	129.63	2.05	11.22	9.45	9.45	7.20	9.40	9.41	7.55	9.34	9.36	7.67

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 20	Dec 19	Dec 16	Dec 15	Dec 14	Yr ago	High*	Low*
Govt. Secs. (UK)	91.90	91.90	91.97	91.94	91.85	108.96	107.04	89.54
Fixed Interest	109.67	109.72	109.72	109.60	109.52	131.18	133.87	108.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 19	Dec 16	Dec 15	Dec 14	Dec 13
Gilt Edged bargains	89.1	101.1	101.6	114.1	100.6
5-day average	98.2	92.9	102.6	101.4	102.7

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on December 20

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

هكذا من الاصل

Sun Life blocks plan to restructure I&S trust

By Norma Cohen, Investments Correspondent

Ivory & Sime, the Edinburgh-based fund manager, risks defeat in its effort to restructure British Assets Trust, its flagship investment trust, following opposition from the trust's largest institutional shareholder.

Sun Life, with an 11.06 per cent stake, has voted against the restructuring proposals. "We do not consider the proposals are in the interests of shareholders," said Mr Jim Stride of Sun Life Investment Managers. "They are unnecessarily complex."

In particular, Sun Life is concerned that the restructuring would create 76.8m new shares seven years from now, the dividends of which would have to be financed by the trust's total returns.

Also, some shareholders and investment trust analysts have questioned whether I&S, which earned £2.8m in fees managing both British Assets and its sister investment trust, Investors Capital Trust, deserves to continue as fund manager. The net asset value of British Assets, which owns about 65 per cent of Investors Capital, fell 7.6 per cent last year while the FT-SE-A All-Share Index rose 0.3 per cent.

Some analysts are asking whether there should be resignations from the boards of both companies, which overlap considerably. Directors of both trusts earned an aggregate £76,000 in the year to September 30, up from £70,000 the year before. Mr Roger Inglis, chairman of British Assets, is due to retire next June.

One of British Asset's directors is a director of Ivory & Sime TrustLink, set up to promote investment trusts in the retail market. British Assets is committed to investing £1.6m in the project by 1997.

Sun Life is expected to call for a poll at an extraordinary meeting in Edinburgh tomorrow, forcing all proxy votes to be counted. I&S will need at least 128m shares to vote in favour to achieve the necessary 75 per cent approval.

Institutional investors with 61.4m shares have already said they will support restructuring. I&S has launched a campaign to encourage its personal equity plan clients, who own roughly 15m shares, and other retail clients to vote in favour. Mr Gordon Neilly, finance director, said that of the private investors who had voted so far, "99.9 per cent have voted in favour".

The £600m trust had sold shares with the promise that it would pay annual dividends increasing each year in line with inflation. While the investments had a return sufficient to cover the promised dividend in the late 1980s, more recently it has been paying out more than its investments earned. As a result reserves are down to 47 per cent of last year's dividend bill.

The trust already has sufficient volunteers for the restructuring proposals to cut its dividend bill by 16 per cent. Those willing to forgo dividend income would exchange 25 ordinary shares for 21, plus four new growth shares with five warrants attached, exerciseable into ordinary shares at the net asset value on the date of restructuring.

TSB sells Irish bank's loan book for I£116m

By Alison Smith

TSB Group, the UK's sixth largest bank, has closed its Irish operations with the sale of the loan book of its Irish Business Bank subsidiary to Anglo Irish Bank for I£116m (£114.6m).

Anglo Irish said the sum represented the net book value; the gross value was I£140m, the difference being the provision for bad and doubtful debts.

Mr Peter Killen, Anglo Irish's executive director responsible for risk assets, said the new loan book, comprising about 400 accounts in the medium-sized corporate and professional market, reflected the spread of the existing specialised areas of business and would take its risk assets above I£1bn.

Three years ago, Anglo Irish entered talks about buying Hill Samuel (Ireland), as Irish Business Bank was formerly known. Negotiations broke down the following April after completion of the due diligence process left the two sides unable to agree on a price.

The deal announced yesterday, which is subject to regulatory approval, would be fully funded from Anglo Irish's own resources, Mr Killen said.

The TSB subsidiary had virtually stopped new lending during the last couple of years and the emphasis had been on structuring the operation in a form that would attract buyers. A total of 37 jobs will be lost.

The disposal marks the end of a process of withdrawal by TSB from Ireland over the last few years as the group moves to concentrate on its UK business.

In April this year it sold the Hill Samuel Fagan Investment Management business to Allied Irish Banks for an undisclosed amount. In 1992, UDT Bank, part of Hill Samuel Ireland, was sold to Woodchester Investments, the Dublin-based leasing and financial services group, for I£23.4m cash.

Wessex ahead 9% and sees scope for further cost cutting

By Peggy Hollinger

Wessex Water drew the industry interim reporting season to a close yesterday with a 9 per cent increase in profits and 10 per cent dividend rise.

The pre-tax return improved from £53.4m to £58.2m for the six months to September 30 on sales 5 per cent ahead to £114.1m.

Mr Nick Hood, chairman, said the profits performance reflected tight control of operating costs through job losses and initiatives such as abolishing company cars for all employees, including the board.

Operating expenses in the core utility business fell by 4 per cent, leaving Wessex with its lowest costs in three years.

The regulated businesses returned operating profits 11 per cent ahead to £52.9m.

The interim dividend is increased from 4p to 4.4p, on earnings 5 per cent ahead to 20.1p. Mr Hood said he was confident there was plenty of scope to improve earnings through further cost-cutting. This would allow Wessex to sustain dividend increases above the rate of inflation.

Mr Hood warned, however, that political interference, such as increasing regulation or windfall taxes, in the regime established by the industry regulator could damage the incentives water companies have to improve services and earnings. "If we are interfered with, we could be damaged and the person who would suffer at the end of the day is the customer," Mr Hood said.

Wessex' share of profits from Wessex Waste Management, the joint venture with Waste Management Industries, increased by 10 per cent to £4.6m. Most of the improvement was due to acquisitions, although prices were increased by about 3 per cent.

Mr Hood said he was confident the waste business would move forward. "Each month that passes confirms my belief that we made the right choice in our diversification."

The market was not convinced, however. Wessex shares fell from 299p to 282p after the results, reflecting some disappointment with the non-regulated business. "The results were OK," said one analyst, "but it did not look as though the waste business was really motoring".

Forecasts are for pre-tax profits of £117m and a total dividend of 13.2p this year, giving a yield of just below 6 per cent, leaving the shares looking fairly valued at present.

Treasury to get £960m from sale of British Coal's assets

By Michael Smith

The government is to receive nearly £960m from the sale of British Coal's mining assets, it emerged yesterday as details were announced of the sale of the south Wales region.

Mr Tim Eggar, energy minister, said the government had agreed that Celtic Energy, a management buy-out team, would acquire British Coal's south Wales coal company for £94.5m.

He announced several weeks ago that RJB Mining was paying £815m for the English regions and Mining (Scotland) £38.4m for the Scottish region plus £10m for stocks.

The £958.9m total is considerably more than analysts expected when the government invited bids for the regions earlier this year - most estimates were about £500m. Some believe the successful bidders may have offered too much and risk running into financial difficulties.

Mr Eggar said Celtic would pay £88.4m on completion of the south Wales deal. Of the balance, £4.9m would be payable with interest in instalments over the three following years. Final payment of £1.2m is expected in two instalments, with interest, in 1999 and 2000.

He said the bid price had been adjusted to reflect developments since tenders were submitted in September or information that was not available at the time.

Celtic's bid price following these adjustments still "represents best value for money".

● British Coal yesterday signed an agreement to sell its 67 per cent interest in Inter-Continental Fuels, a coal trading company, to RTZ and Coal Investments. It is also selling its 50 per cent stake in IMC Holdings, which provides consultancy and engineering services to energy and mineral companies, to ICF.

Mid-States intent on Nasdaq quote

By James Whittington

Mid-States, the US motor parts distributor quoted on the USM, said yesterday it still intended to proceed with its application to be traded on the US Nasdaq market.

Shares in the company have halved this year from a high of 132p in late January to a low for the year of 61p on Monday because of repeated delays to its planned $15m (£9m) American Depositary Receipts issue. The shares rallied 2p to 63p yesterday.

The listing is primarily aimed at moving away from a mainly UK shareholder base and attracting American investors to the company, which operates through its subsidiary, Mid-State Automotive Distributors of Nashville, Tennessee.

Instead of placing the new issue straight away, the company now intends to list the minimum number of existing shares on Nasdaq early next year. A new issue would come later.

In the nine months to September 30 turnover improved to £58.7m (£48m) while pre-tax profits rose to £4.85m (£4.61m). Gearing at the period end was 44 per cent.

BAS plans new year flotation

By James Whittington

BAS International Holdings, a supplier of low-cost consumer stationary, soft toys and giftware, announced yesterday its intention to make its Stock Exchange debut in the new year.

Although few details are available, the Manchester-based group plans to raise about £12m by issuing new shares and hopes to be valued at £20m to £30m on flotation.

Mr Graham Hallworth, finance director, said the fresh funds would be used to finance organic growth in the distribution business, such as product development, acquisitions and a new distribution centre in north-west England.

BAS operates through four subsidiaries. It is owned by Mr Martin Abramson, chairman and founder, who has a 70 per cent stake, and Mr Tyrone Farber and Mr Richard Rosenburg, both managing directors, who hold 15 per cent each.

Total annual sales are about £22m and pre-tax profits for 1994 are forecast at £2m, against £992,000.

Panmure Gordon is sponsor to the issue.

Second half boost for Eurotherm

By Paul Taylor

Strong second-half sales growth helped Eurotherm, the industrial process control equipment supplier, report a 30 per cent increase in full year pre-tax profits.

On turnover up by 6.1 per cent to £168m (£158.4m) profits increased from £20.1m to £26.1m in the year to October 31, highlighting the group's strong operational gearing.

Turnover grew by 11 per cent in the second half offsetting a sluggish 1.9 per cent increase in the first six months and re-establishing Eurotherm on a solid growth track.

Mr Claes Hultman, chief executive, said: "Early signs for the current financial year are that this growth is continuing."

Earnings per share rose by 28 per cent from 15.1p to 19.4p and a final dividend of 3.5p is recommended, making a total for the year up 16 per cent at 5.5p (4.75p).

The shares closed unchanged at 400p.

All divisions achieved higher sales helped by new product launches. However, the strongest advance came in the drives division where sales rose by 16.7 per cent. Internationally the biggest sales increases were in the UK and North America.

However, Mr Jack Leonard, chairman, noted that, "as the year progressed, there has been a growing recovery in the rest of Europe with Sweden and Benelux performing exceptionally well".

Tight cost control helped maintain gross profit margins at 50.3 per cent while administrative expenses fell slightly and operating profits increased by 27 per cent to £25.6m (£20.1m).

Pre-tax profits were boosted by £500,000 of net interest income reflecting the group's strengthening net cash balances which increased by £14.8m to £21.6m over the year.

● **COMMENT**

Despite the lacklustre market response Eurotherm's latest results will go some way to silencing critics who, while acknowledging management's success over the past four years in restoring profitability and strengthening the balance sheet, have been looking for evidence of organic sales growth. The management is confident that it can keep turnover moving ahead by between 10 and 15 per cent a year, helped by the group's investment in new product development including a new line of temperature controllers. On this basis pre-tax profits should reach about £31m this year producing earnings of 23p. Despite this the shares are trading on a sizeable 38 per cent premium to the market, and the upside potential therefore looks somewhat limited.

Michael Scott

Trafalgar takes battle to Northern's heartland

The top management of Trafalgar House, the engineering and property conglomerate, yesterday took its battle for Northern Electric to the takeover target's Tyneside heartland, writes Chris Tighe.

Mr Nigel Rich, above left, Trafalgar chief executive, and Mr Simon Keswick, chairman, posed for photographers on Newcastle Quayside before holding a press conference in the nearest hotel to the rec's city centre headquarters.

They were accompanied by Mr Rodney Leach, strategy and finance director, and also by the senior executives of five of the Trafalgar companies based in north-east England, to underline the conglomerate's existing links with the region.

Although they were, physically at least, only yards apart the two management teams did not meet, despite Trafalgar requests. "We don't think there's any basis for a conversation at this stage", said Northern Electric.

Terra Nova acquired by Bermuda operation

By Ralph Atkins, Insurance Correspondent

Terra Nova, the privately-owned London insurance and reinsurance group, has been acquired by a group of mostly US investors, via a new Bermuda holding company, as a prelude to seeking a NYSE listing.

The new holding company will also own an operation in the expanding Bermuda reinsurance market, making Terra Nova one of only a handful of companies with a significant presence both on the island and in the London market.

Mr John Riddick, managing director, said the Bermuda base would attract US investors because of its tax and regulatory regime. "The successful [reinsurance] companies of the future will be those which are able to access the capital markets of the world. The scope for privately-held reinsurance companies is limited," he said.

He envisaged the company floating within two years. It reported a pre-tax operating profit of £27.3m last year.

Terra Nova has raised $106m (£65m) in equity from an expanded shareholder base and $85m in debt from US and UK banks via a syndicated loan. A large part of the funds has been used to buy back shares.

The holdings of the existing three main shareholders – Aetna Life & Casualty and Cigna Corporation, the US insurance companies, and Marsh & McLennan, the world's largest insurance broker – will be cut from about 80 per cent to 38 per cent.

The holding company has acquired Underwriters Capital (Merrett), a Bermudian reinsurance company formed last year to provide reinsurance facilities to Lloyd's syndicates managed by the Merrett Underwriting agency. With the Merrett syndicates now in run-off, the Bermuda company has, in effect, been dormant.

UCM has been renamed Terra Nova (Bermuda) Insurance and will have an initial capitalisation of $55m.

Minmet talks with Gulf Exploration terminated

By Geoff Dyer

Minmet has ended discussions with Gulf Exploration Consultants over its possible acquisition of the Dublin-based electronic information, mining and exploration group. Instead, Emerging Money, its information services division, has been sold to Gulf, a US shell company in which Minmet has a significant stake.

Mr Paul Bristol, Minmet chairman, said: "It is better if Gulf is seen to be providing only financial information, rather than being muddled together with our other businesses."

Minmet exchanged the assets of Emerging Money in return for 37.9m shares in Gulf, taking its stake to 60 per cent.

Gulf intends to revive its listing on Nasdaq in the new year.

NEWS DIGEST

Forminster edges up to £1.09m

Mild weather restricted interim profits growth at Forminster, the clothing importer and manufacturer, as demand for winter clothes fell short of the trade's expectations.

The pre-tax figure for the six months to October 31 edged ahead from £1.08m to £1.09m, on static turnover of £12.6m (£12.5m).

Earnings per share were 5.64p (5.35p). The interim dividend rises to 1.04p (0.926p).

The company has also bought 100,000 of its ordinary 2p shares for cancellation at 148p each.

Black & Edgington

Black & Edgington Group, the USM-quoted provider of portable buildings and tents for sporting occasions and exhibitions, reported pre-tax losses of £1.07m for the year to end-July against profits of £20,000.

Turnover improved to £8.45m (£7.6m) and there were operating profits on continuing activities of £340,000 (£287,000 losses). Losses on discontinued activities, however, were £967,000, mainly property related, and the pre-tax line was after interest charges of £440,000 (£571,000).

Losses per share emerged at 0.21p (0.01p earnings).

Learmonth slides

Shares in Learmonth & Burchett Management Systems fell 12p to 85p as the USM-traded computer services group reported a deficit of £3.28m.

The outcome for the six months to October 31 compared with a pre-tax profit of £201,000 and a loss of £746,000 at the year end. It was struck after an exceptional £2.4m relating mainly to restructuring. Turnover slipped from £13.1m to £11m, including £403,000 (£1.84m) from discontinued activities.

Mr Rainer Burchett, chairman, said the results had been dominated by reorganisation, adding that the company was "confident of returning to profit" in the second half, but any dividend "now seems unlikely".

Losses per share came out at 13.7p (earnings of 1p).

I&S Optimum boost

A special dividend of 85p announced in October by East Midlands Electricity gave an unexpected boost to earnings at I&S Optimum Income Trust.

The rec is the largest holding in the Ivory & Sime-managed trust's portfolio. At end-May its stake was valued at £3.67m.

On available revenue of £1.68m (£1.18m) earnings for the six months to November 30 improved to 5.79p (4.06p) per share. A second interim dividend of 1.95p brings the total to date to 3.9p. At yesterday's share price of 84½p, this represents an implied annualised gross yield of 11.5 per cent.

Net asset value rose 5.4 per cent to 94.95p (90.08p) in the period, against a 3.7 per cent rise in the FT-SE 100 Index.

Edmond restored

Dealings in Edmond Holdings, the housebuilder, were restored yesterday following the rejection at an EGM of a resolution to approve the acquisition of Linden, an unquoted housebuilder.

Mr David Walsh, who became the non-executive chairman in place of Mr Andrew Naish, who stepped down as chairman after the meeting, said some institutions did not share the board's view that the acquisition represented the best way forward for Edmond.

The shares, which were suspended last month at 21p, closed at 17½p yesterday.

FT-SE-A Indices

The FT-SE Actuaries UK Indices Committee has approved, as part of the annual review, the following changes to the constituents of the FT-SE SmallCap and FT-SE Actuaries All-Share Indices with effect from January 3 1995: Huntleigh Technology will remain a constituent of the FT-SE SmallCap and FT-SE Actuaries All-Share Indices; Siam Selective Growth Trust will become a constituent of the FT-SE SmallCap and FT-SE Actuaries All-Share.

Authorities look at Attwoods intervention

By Bernard Simon in Toronto and Peggy Hollinger in London

The UK Takeover Panel has asked James Capel, the stockbrokers, for a full report on its involvement in a surprise bid earlier this month by a small Canadian company for Attwoods, the waste services operator.

Capel's Canadian affiliate, BBN James Capel, acted as an adviser to Ontario-based Ikotek Waste Recycling Corporation, which appeared as a bidder for Attwoods less than five hours before an offer by Browning-Ferris Industries of Houston was due to expire.

BBN James Capel, which is owned equally by its managers and James Capel, is understood to have breached the UK firm's internal procedures. The confusion and uncertainty created by Ikotek's bid severely embarrassed the UK firm, which was not immediately aware of its Toronto-based affiliate's involvement.

The Canadian firm's two most senior executives, Mr John Stevens, president, and Mr David Anderson, corporate finance director, left abruptly last week. Capel has indicated that further internal repercussions are unlikely.

Mr Tony Pullinger, the Panel's secretary, said yesterday that "we're still interested in the matter, but haven't finished our deliberations."

Ikotek's motives remain unclear. One person with links to the company said yesterday that it was eager to find markets for a household waste-recycling system, for which it holds the North American licence. Both Attwoods and BFI have extensive waste-collection operations, which would be suitable outlets for the Ikotek system.

The licence is held by Ikotek Europe, which is described as a group of "engineering people and investors" with a small pilot plant in Switzerland. Ikotek is a privately owned company, which is part of a group controlled by Mr Helmut Sieber.

Under Panel rules, the timetable for shareholders to decide on an offer is extended by 60 days if a competing bid appears. The Panel was unsure whether to take Ikotek's bid seriously.

However, BFI won control of Attwoods within hours of Ikotek's intervention.

New Coats pension manager

By Norma Cohen, Investments Correspondent

Coats Viyella, the clothing and textiles group, has scrapped the in-house fund manager for its £1bn pension fund and is to use four independent companies.

The move is part of a growing trend towards external fund management reflecting the growing complexity and diversity of investment decision making. ICI, the UK's 10th largest scheme, recently decided to close its in-house fund manager.

It is understood the Coats' decision was made following significant underperformance by the pension scheme in 1993, and marginal underperformance relative to the industry average in the previous two or three years.

In explaining the decision, Mr Sam Dow, company secretary, said the decision reflected the fact that "the investment waterfront is changing considerably" rather than concerns about performance.

For instance, the increasing trend towards overseas investment, particularly in emerging markets, would have required the addition of extra expertise.

Also, technology has become increasingly important. "We would have had to make a substantially greater investment in technology in order to give ourselves the same tools that other investment managers have," he said.

The company has selected Morgan Grenfell Asset Management and PDFM to run two large funds investing in stocks and bonds. It has retained Foreign and Colonial Investment Management to invest in overseas equities and M&G, the unit trust managers, to achieve above-average returns in UK equities.

Options ameliorate Hoerner pay cut

Mr John Hoerner, chief executive of Burton Group, saw his salary fall from £739,000 to £597,000 last year, according to the retailer's annual report, writes Neil Buckley.

He may not be too downhearted, however. At yesterday's share price of 69p, he is sitting on a paper profit of more than £950,000 on share options which become exercisable before the end of June.

In the year to September 3, Mr Hoerner's basic salary and taxable benefits fell from £453,000 to £422,000.

The company said this was due to a reduction in taxable benefits to come into line with corporate governance guidelines – which involved Mr Hoerner giving up one of his two company cars.

Mr Hoerner's performance-related bonus also fell, from £171,000 to £60,000, as pre-tax profit – although ahead from £16.3m to £41.1m – did not perform as well against targets set by the remuneration committee as in the previous year. His pension contribution was unchanged at £115,000.

Mr Richard North, former finance director who joined Bass after leaving Burton in July, earned between £555,000 and £560,000, including a special bonus of £263,000 – equivalent to one year's salary – for "securing the group's financial stability".

SCI bid for Plantsbrook referred to MMC

By Geoff Dyer

The Department of Trade and Industry has referred the acquisition of Plantsbrook, the funerals group, by Service Corporation International to the Monopolies and Mergers Commission.

The MMC has been asked to examine the supply of funeral services, particularly in south and central London, because of SCI's high market share.

SCI made the initial recommended bid on September 2, valuing Plantsbrook at £193m. The acquisition, which was not conditional on clearance by the competition authorities, was completed on October 20. The DTI received advice on the takeover from the Director General of Fair Trading on November 24.

In August SCI, the largest funerals company in the US, won a takeover battle for Great Southern Group, another leading UK funeral company.

If the MMC advises the DTI that the Plantsbrook acquisition is against the public interest, in theory the DTI could require the acquisition to be unwound. It could alternatively require that parts of the company be sold or impose restrictions on its operations.

Mr Jerald Pullins, chief executive officer of SCI UK, said: "Because of the limited [geographical] scope of the investigation, we do not believe that it will affect the overall transaction."

At the time of the Plantsbrook bid, it was thought that the pre-paid funeral market would be likely to prompt a referral to the MMC. SCI has a 15 per cent share of the UK funeral market, but an estimated 80 per cent of the pre-paid market, through Plantsbrook's Dignity in Destiny scheme and Great Southern's Chosen Heritage plan.

The Office of Fair Trading is separately conducting an investigation into regulations in the pre-paid funeral market. A report is expected in February.

The MMC is required to report back to the DTI by March 24.

£317m rights issue to fund £295m purchase of US kitchen maker

Welbilt agrees Berisford offer

By Peggy Hollinger

Berisford International, the kitchens and joinery group, yesterday announced a hefty 11-for-5 rights issue to fund a £295m offer for Welbilt, one of the largest commercial kitchen manufacturers in the US.

In addition, the New York-based Kohlberg family, which controls 46.7 per cent of Welbilt, has agreed to sell its shares to Berisford at a discount to the price being offered to most shareholders. Mr Jerome Kohlberg is one of the founders of the leveraged buy-out specialist Kohlberg Kravis Roberts.

Berisford is offering $33.75 (£20.50) a share to investors representing the outstanding 53.3 per cent of Welbilt, against $30 a share for the Kohlberg stake. In total, Berisford is offering $312.7m for Welbilt, and will refinance the group's net debt of about $147.8m.

The deal will be funded through the issue of up to 334.25m units of 5 per cent convertible unsecured loan stock, on the basis of 11 for every five shares held, at 100p to raise £317.1m net of expenses. The units may be converted from August at 245p. The issue will be underwritten by Barings, the UK merchant bank, which with its US sister bank Dillon, Read put the deal together.

The acquisition will almost double the size of Berisford, which earlier this year bought Magnet, the kitchens and joinery manufacturer and retailer, for £56m. That was also funded by a rights issue, then at 120p.

Mr Alan Bowkett, Berisford chief executive, said yesterday's rights was likely to be the last equity fund raising for the next two to three years. Berisford, which has net cash of £70m, expected to make only infill acquisitions over the next 18 months.

An announcement has been expected since news about the talks leaked out in London over the weekend.

Mr Bowkett said his company had approached the Kohlberg family when it became apparent they wanted to sell their stake through a secondary public offering in the US. The Kohlbergs have held the stake since buying out the family owners in 1990.

Berisford was invited to make a bid for the whole company after extensive due diligence and agreeing to pay a higher price to independent shareholders.

The total costs of the deal are expected to be about $35m. This includes the costs of buying out Welbilt bonds worth $100m at a premium and underwriting costs of $12m.

Mr Bowkett said he was delighted with the acquisition, which would materially enhance earnings in 1995. In the nine months to October 1, Welbilt made operating profits of $36.4m on sales of $360.9m.

Berisford shares were suspended on Monday at 228p.

Increased offer turns off leaks

Christopher Price considers De La Rue's negotiations with Portals

It was perhaps appropriate that the final stages of negotiations between De La Rue and Portals should be disrupted by a burst water pipe.

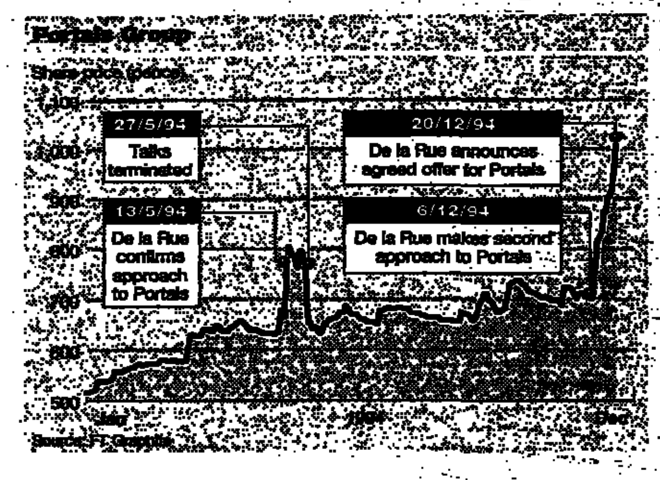
The eight month courtship, involving two separate approaches, has sprung so many leaks that it has prompted at least one Stock Exchange inquiry, emergency statements to calm nervous investors and enormous volatility in the Portals' share price.

Aside from its leaking pipe, last weekend's meeting at Schroders, De La Rue's advisers, marked the final attempt by the fiercely independent Portals board to dissuade De La Rue from making a formal offer for the specialist paper making group.

Mr John Lloyd, Portals managing director, said the board had eventually been swayed by the amount of money on offer. "We believed we had a great future as an independent company, but at the end if the day, we must look after the interests of our shareholders."

One adviser to Portals said that he was for rejecting the De La Rue offer of £10.50 a share in favour of prompting a hostile bid from the banknote printing group. "I felt we would be looking at closer to £12 a share in a contested takeover."

Mr Lloyd said: "The board, our bankers and advisers all felt the De La Rue offer was a good one. It's as simple as that."



He added that the company's renowned low corporate profile, reflecting the corresponding high profile of its international central bank customers, was a factor in not wishing to get involved in a protracted takeover battle.

De La Rue has also emphasised the need to maintain its conservative and measured reputation in the security-conscious banknote industry. In both its approaches the group stated that it would not make a hostile bid, stressing it was seeking the agreement of the Portals board.

Portals was first approached by De La Rue in the spring, with informal talks on co-operation, in particular in the area of new banknote and printing technology.

"It became evident fairly early on that pooling our R&D resources was going to be difficult. That's when we started thinking about a full merger," said Mr Jeremy Marshall, De La Rue chief executive.

De La Rue was attracted by Portals' anti-counterfeiting technology which has enabled it to produce ever-more sophisticated watermarks and speciality threads in its banknotes.

However, from the beginning the discussions were plagued by leaks, to both the stock market and the press. After the first approach in May, the two companies were forced into confirming the talks after the Portals share price jumped 20 per cent in four days. The Stock Exchange subsequently launched an inquiry.

The shares tumbled a week later after talks were terminated. Sources close to the negotiations said De La Rue offered about 900p a share, which was rejected.

"We remained determined to convince them of the logic of the deal and we analysed the situation further over the summer and came back with an even stronger case second time around," said Mr Marshall.

Early this month there was a re-run of the spring. Portals shares shot forward, followed by emergency statements and talk of a Stock Exchange inquiry. However, this time De La Rue came back with a higher, and finally, acceptable offer.

"It's a very full price they are paying, but in the longer-term it should be a good deal," said Mr Alastair Irvine at Smith New Court.

He added that without any obvious costs being taken out by the merger, short-term benefits were few. "Strategically De La Rue has done the deal to increase the durability of its banknote business. They believe security is more in the paper side than in the printing."

Mr Marshall said that the group would review Portals' non-core businesses, including tea bag production and the protection and control division. He said it was unlikely they would be sold if the sales were not earnings enhancing.

One part of the business definitely being retained is Portals' mansion in Hampshire, home to Mr Julian Sheffield, the group's chairman. He is to join the De La Rue board and Mr Marshall said his agreement to stay in the house until August 1996 would be honoured.

Blackwood holders take BM to court

By Geoff Dyer

Three preference shareholders in Blackwood Hodge have filed a petition against its parent, BM Group, in the High Court, claiming that its affairs have been managed in a manner prejudicial to the interests of preference shareholders.

Blackwood Hodge had net assets of £95m when BM acquired it in 1990. BM made an offer for the three classes of its preference share capital on October 26 this year. The offer closes tomorrow after which BM plans to put Blackwood Hodge into liquidation.

One of the petitioners, Mr Stephen Cockburn, managing director of Investment Company, which owns preference shares in Blackwood Hodge, said that he would not now be making a rival offer for two classes of the shares.

Mr Cockburn, who also has a personal holding, said that if the petition was successful he would not be entitled to relief on the shares acquired under the offer.

The petition, filed on November 30, claims BM has undervalued the surplus from the Blackwood Hodge pension fund, which was merged with BM's pension fund at the time of the acquisition. BM's 1992 accounts value the surplus at £15.3m. The BM offer says Blackwood Hodge has net liabilities of £500,000. The petitioners claim that the pension fund surplus now has a value of at least £5.6m, which would give Blackwood Hodge net assets of £5m, radically changing the terms of the offer.

Andrews Sykes unaware of reason for 21p rise

Shares in Andrews Sykes, the industrial services group, rose 21p yesterday to close at a high of 158p. The board said it was "not aware of any reason for the increase".

Earlier in the day it announced the appointment of two new directors one of whom is Mr Jean Jacques Murray who won effective control of the company following a prolonged boardroom battle which ended in May.

European Fire Protection, Mr Murray's private Dutch company, owns 59.5 per cent of Andrews Sykes and he becomes a non-executive director. Mr John Hall, operations director of the group's main subsidiary, was appointed an executive director.

Andrews Sykes, which has been undergoing a restructuring, reported a £1.96m loss in the six months to September 30.

Kay's £4.8m for Corridor deal

Kay's Food Group, the meat processor, is paying up to £4.84m in its reverse takeover of Corridor Group, the food manufacturer and distributor.

An initial payment of £4.07m will be satisfied by the issue of 81.4m shares, representing 47 per cent of the enlarged equity. There will be a further profit-related payment to a maximum of £775,000 satisfied by up to 30m shares, or 14.7 per cent of the enlarged equity.

Kay's is also raising £615,000 gross by a placing of £12.3m shares at 5p. The shares are suspended at 4½p.

Erith expands with East Anglia buy

Erith, the builders' materials group, is expanding in East Anglia with the acquisition of Norwich-based Builders Direct Supply for £1.49m.

Initial consideration involves the issue of 164,500 Erith shares, unchanged at 58p yesterday, with the balance payable in cash or shares on or before December 31 1995.

BDS, which will brings six branches to Erith's 37-strong chain, incurred a pre-tax deficit of £34,000 in the 10 months to October 31, on sales of £6.3m. Net assets amount to £1.43m.

PowerGen confirms share buy-back plan

By David Lascelles, Resources Editor

PowerGen has confirmed that it will buy back a portion of its shares when the government offers its 40 per cent stake in the power generators for sale early next year.

The move had been expected following National Power's announcement last month that it would buy up to 8 per cent of its shares from the government.

PowerGen will buy a similar proportion, worth about £322m at Monday's prices. However, the government will be able to claw back up to 1.5 per cent to meet demand from investors in the public offer.

PowerGen will cancel the shares, thereby enhancing earnings per share by 2.5 to 3.5 per cent.

The move will also take the group a step closer to its goal of reducing dividend cover to 2.5 from 2.7 times earnings.

The group said yesterday that the purchase would be financed from existing facilities and anticipated cash flows. However, it is likely that year-end gearing will only be slightly above last year's 15 per cent because other borrowings have decreased.

Existing investment plans and further share repurchases would not be affected.

See Capital Markets

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Eurotherm	fin	3.5	Apr 7	3*	5.5	4.75*
F&C Smaller	int	0.74	Feb 10	0.7	-	1.97
Forminster	int	1.04	Feb 14	0.926‡	-	3.196‡
I&S Optimum	int	1.95♥	Feb 8	1.85	-	7.6
Wessex Water	int	4.4	Apr 6	4‡	-	11.75‡

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. ‡After share subdivision. ♥Second interim: makes 3.9p to date.

صحكا من الاهل

Berisford

turns off lea

Andrews Sykes

of reason for 21p

TELECOM ITALIA

A NEW NAME LEADING TELECOMMUNICATIONS IN ITALY

TELECOM ITALIA
was set up on 18 August 1994 through the merging of five companies (SIP, Italcable, Iritel, Telespazio and Sirm) that had until then managed Italian telecommunications separately, and has thus become a global operator in a completely new framework.

TELECOM ITALIA
is now the sixth largest telecommunications operator in the world in terms of turnover and one of Europe's prime investors in the sector.
It is a joint-stock company with almost 70,000 investors and 18% of its share capital is held by foreign shareholders.

TELECOM ITALIA
has a worldwide presence with 18 representative offices with a large number of other corporate entities. It also has a wide-spread commercial network geared to provide, even abroad, a speedy, integrated and innovative answer to the communications requirements of people and companies.

"A sharp decline in financial charges achieved thanks to ongoing economic and financial consolidation is the clear result of a policy based on rational and integrated organisation, further strict cost reduction measures and carefully selected large-scale economies in order to become competitive in a free market".
(Francesco Chirichigno)
Managing Director

THE FIRST SIX MONTHS OF TELECOM ITALIA

The figures are in lira	30.06.94	31.12.93*
REVENUES (BILL)	14.276	23.404
ADDED VALUE (BILL)	11.345	18.164
ADDED VALUE / REVENUES (%)	79,5	77,6
GROSS OPERATING MARGIN (BILL)	7.994	12.327
GOM / REVENUES	56	52,7
OPERATING PROFIT (BILL)	3.136	3.796
NET FINANCIAL CHARGES / REVENUES (%)	5,3	9,8
PROFIT BEFORE TAXATION (BILL)	2.175	1.741
INVESTMENTS (BILL)	3.680	7.963

*1993 FIGURES REFER TO MERGED COMPANY SIP

TELECOM ITALIA - Direzione Generale - via Flaminia, 189 - 00196 Roma

PROGETTO GRAFICO PUBBLICITARIO - IACOPINI • BICCARI - ROMA

COMMODITIES AND AGRICULTURE

Diamond sales remain at near-record level

By Kenneth Gooding, Mining Correspondent

Sales of rough (uncut) diamonds remain near record levels but the market is still in turmoil and cutters continue to complain about lack of profitability. That was the message yesterday from De Beers, the South African group whose London-based Central Selling Organisation accounts for at least 80 per cent of world trade in rough diamonds.

The CSO said its sales reached US$4.25bn (£2.59bn) this year, 2.7 per cent below the record set in 1993 but still the second-highest total ever achieved.

Nevertheless, the CSO made it clear that all is not well in the market. It cited:

● "Leakages" of high-quality diamonds from government stockpiles in Russia, in breach of the contract between Russia and the CSO, that are continuing from time to time and having a depressing effect on sentiment in the cutting centres. There are also uncertainties because the CSO's contract with the Russians ends in 1995 and negotiations about a new one have not been going well.

● A build up of stocks at the cutting centres, particularly of small polished stones from India. The CSO reduced its supply of small stones from the second quarter of this year but the raw material the Indian cutters need is plentiful following sales from Russian and US strategic stockpiles. These diamonds were considered suitable only for industrial use when they were stockpiled but the subsequent development of the Indian industry, which can cut small stones economically, means that many of the stockpiled diamonds are cutable.

● The CSO has not increased prices since February, 1993. That increase was of only 1½ per cent and was the first since 1990. Producers with CSO contracts have been asked to cut deliveries from previously-agreed levels and the CSO said yesterday this quota would remain at 85 per cent.

On the other hand, the CSO said sales of diamond jewellery had been resilient during recent difficult world trading conditions and retail diamond jewellery sales in 1994 were likely to match last year's record US$42bn.

It pointed out that supplies of cut diamonds from India had fallen substantially because of the recent outbreak of pneumonic plague, which started in Surat, a region that provides more than one third of India's cut diamonds. Some factories, deserted by frightened, fleeing workers, still had not reopened. "Time will take care of the oversupply," a CSO official insisted.

Mr Michael Coulson, analyst with Nedcor Securities, suggested that the CSO's profit margins were being squeezed and he expected De Beers' "diamond account" profits for 1994 to be down a little. However, De Beers' net profits, after other income was taken into account, were likely to be ahead of those for 1993. He said world diamond sales were likely only to "inch ahead" in 1995 and he hoped the CSO would give up its policy of saturating the market in the first half.

He predicted the Russians would sign a new contract with the CSO but on more favourable terms.

De Beers also is convinced that Russia will stay in the diamond cartel. It recalled that Mr Harry Oppenheimer, former chairman of De Beers, said recently: "Demand in the world for diamonds is stronger and more firmly established than it has ever been and co-operation between all the major producers is beyond doubt in the interests of them all."

Zimbabwe's flower exports take to the sky

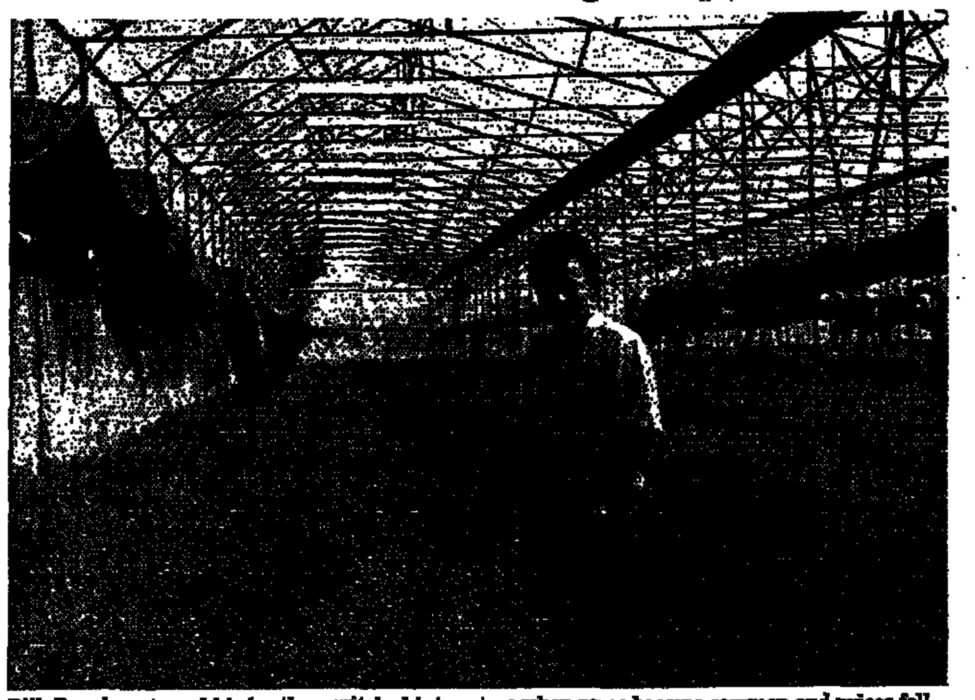
The country's growers are now the EU's fourth largest suppliers, writes Alison Maitland

When the Danckwerts, a prominent Zimbabwe farming family, decided to grow flowers for export to northern Europe, they were warned it would be a flop. Less than 10 years later, they are leaders in a blossoming industry that is flying out over 7,000 tonnes of cut flowers to brighten the northern winter each year, bringing the country Z$290m (£22m) in annual export earnings.

"This sort of thing is ideal for Zimbabwe," says Rijk Danckwerts, who farms 1,600 hectares next to Harare airport with his brother Craig.

Using a combination of reliable sunshine, artificial light and black plastic coverings to force flowering, they can produce 12 flushes from a plant in one season and fly flowers out every day between October and early June. "That's important to buyers," he says.

The flower business, which now accounts for at least half the two farms' annual turnover of Z$12m, is a truly international one. The varieties the Danckwerts use are bred in Israel, grown in Zimbabwe and sold directly to supermarkets such as Sainsbury in the UK, or via the Dutch auctions to destinations as distant as Japan or Canada. Zimbabwe is now the fourth largest exporter of flowers to the European Union.



Rijk Danckwerts and his brother switched into asters when roses became common and prices fell

The industry took off when white tobacco farmers decided to diversify, fearing the strength of the anti-smoking lobby in the west. Low international prices last year meant a fall in plantings of tobacco, Zimbabwe's biggest agricultural export, leading to a 22 per cent smaller harvest this year. Moreover, the World Bank predicts that tobacco prices will remain close to the 1993 level over the next few years and then fall in real terms by about 10 per cent over the following decade.

Another reason for moving into flowers was concern about the government's moves to redistribute white-farmed land to black Zimbabweans to relieve population pressures and provide homes for those displaced by the war that led to independence in 1980. Flower production has enabled white farmers to maintain or increase their incomes by using small areas of land intensively. The Danckwerts produce their flowers from 9.5 hectares of greenhouses.

As well as the climatic advantage, the industry enjoys very low labour costs compared with northern hemisphere flower-producing countries. Horticulture is also one of the few sectors in Zimbabwe that has never been subject to state marketing controls.

The Danckwerts began by growing summer flowers such as delphiniums, but moved into higher value roses when the Zimbabwe dollar lost value and airfreight costs soared. Roses are the most typical Zimbabwean product, but the brothers switched again, this time into asters, when roses became common and prices fell.

"We didn't want to follow the trend too closely," says Rijk Danckwerts, pointing out that Kenya, Tanzania and Zimbabwe will produce 200m to 300m more roses between them this year than last. Roses also require ultra-cautious handling. "You only have to look at a rose and something goes wrong."

By specialising, he is able to boast that the white aster variety produced by the family company, Sunshine Flowers, is grown nowhere else in the southern hemisphere. The asters, grown at 35°C, are picked and sorted, then transferred to cold storage at 4°C. From there, it is only 10 minutes to the airport, where they are dispatched to Europe.

The industry is not free of troubles. The economic structural adjustment programme introduced in 1991 has pushed up interest rates to 35 or 40 per cent. This makes it difficult for new farmers to enter production and for existing ones to expand, especially given the shift to high-value flowers requiring hefty capital investment. Nevertheless, a few black farmers are managing to work their way in.

Airfreight tariffs are among the highest in the world, accounting for 40-65 per cent of the cost, insurance and freight value of the flowers. The national cargo line, Affretair, enjoys state protection against competition and the unreliability of its schedules poses serious problems for producers of short-life commodities.

Despite this, the flower industry, together with the productive fruit and vegetable sector, is being encouraged by the government because it is highly labour intensive – employing about 30 people, mostly women, per hectare – and because of its high returns. Mr Stanley Heri, chief executive of the Horticulture Promotion Council, points out that horticulture can produce the same turnover from one hectare as 20 hectares of maize.

Export earnings from horticulture are already the fourth highest among agricultural products, after tobacco, beef and sugar. "Horticulture will overtake tobacco within 10 years," Mr Heri says confidently.

Given that the west European cut flower market is expected to grow from $12.5bn in 1990 to more than $19bn by 2000, he may well be on to something.

MARKET REPORT

Base metals volatile in thin trade

Base metals prices swung in both directions at the London Metal Exchange yesterday, with moderate orders having an exaggerated effect in fairly thin markets.

Falls in LME stocks gave the markets a steady start but there was no follow through buying.

Three months delivery COPPER reached $2,965 a tonne after news of a 4,475 tonnes stocks fall but later fell back to Monday's low of $2,930 before finding support.

ALUMINIUM found good support on dips but failed to break resistance above $1,900 a tonne.

London Commodity Exchange COCOA futures bounced from early lows to end higher in healthy volume. The most-active March futures contract was up £13 on the day at £989 a tonne and December closed up £12 at £1,035.

COFFEE prices ended down but off the day's lows in sluggish trade.

"There has been some price-fixed buying that helped lift the market a bit in the afternoon. New York also performed better than some people had expected," said one trader.

Compiled from Reuters

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	-20,125	to 1,731,475
Aluminium alloy	+420	to 30,220
Copper	-4,475	to 295,400
Lead	-2,700	to 348,600
Nickel	-642	to 148,524
Zinc	-3,000	to 1,187,250
Tin	-240	to 28,520

NZ apple growers have bumper year in spite of storms

By Terry Hall in Wellington

The New Zealand apple industry overcame severe storm damage and intense competition from rival producers to earn NZ$603m (£247m) from its fresh fruit and commercial activities in the year to September 30, one of the best returns on record.

A year earlier, returns were hit by a global glut of fruit, and profits fell to NZ$571m.

Mr John McCliskie, chairman of the Apple and Pear Board, said that pipfruit export payments to orchardists averaged NZ$16.70 a carton, a 54 per cent increase on the 1993 year.

The board exported 11.6m cartons of fruit to 60 countries, worth NZ$455m.

New Zealand was the first country apart from South Korea to break into the Japanese market. Other new markets were Northern China, Vietnam, Somalia and Sri Lanka. Premium prices were obtained in a number of markets including the UK where prices were 29 per cent higher than the market average.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1860-61	1897-98
Previous	1858.5-59.5	1894-95
High/low		1905/1880
AM Official	1856-58	1892.5-93.0
Kerb close		1899-900
Open int.	251,644	
Total daily turnover	76,831	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1825-35	1865-75
Previous	1820-30	1860-65
High/low		1905/1880
AM Official	1820-25	1864-65
Kerb close		1865-75
Open int.	2,848	
Total daily turnover	1,076	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	632.5-33.5	652-52.5
Previous	626-28	645-47
High/low		653/648
AM Official	630-30.5	649-49.5
Kerb close		654-6
Open int.	45,033	
Total daily turnover	7,773	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8390-400	8540-50
Previous	8300-325	8450-75
High/low	8460	8675/8450
AM Official	8445-50	8605-10
Kerb close		8600-10
Open int.	67,450	
Total daily turnover	15,562	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5860-70	5960-70
Previous	5850-60	5950-60
High/low	5855	5970/5930
AM Official	5850-55	5950-55
Kerb close		5965-70
Open int.	22,425	
Total daily turnover	3,740	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1105-7	1133-35
Previous	1102.5-3.5	1131-32
High/low	1103/1102	1138/1126
AM Official	1101-2	1130-30.5
Kerb close		1133-4
Open int.	104,539	
Total daily turnover	43,313	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2974-75	2944-45
Previous	3002-7	2957-58
High/low	3002/2994	2965/2920
AM Official	2994-95	2950-53
Kerb close		2936-7
Open int.	270,560	
Total daily turnover	122,124	

■ LME AM Official £/$ rate: 1.5612

LME Closing £/$ rate: 1.5605

Spot: 1.5603 3 mths: 1.5597 6 mths: 1.5603 9 mths: 1.5597

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Dec	135.05	-1.55	136.00	134.30	3,470	1,256
Jan	135.50	-0.70	136.20	134.00	2,132	278
Feb	134.30	-0.70	134.30	134.60	825	11
Mar	133.80	-0.70	134.35	132.30	28,198	9,355
Apr	129.60	-0.40	-	-	841	134
May	127.80	-0.60	129.70	127.40	3,023	178
Total					58,439	11,450

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv.
Close	[illegible]	
Opening	[illegible]	
Morning fix	[illegible]	243.965
Afternoon fix	[illegible]	244.714
Day's High	[illegible]	
Day's Low	[illegible]	
Previous close	[illegible]	

Loco Ldn Mean Gold Lending Rates (Vs US$)

[illegible]

Silver Fix	p/troy oz.	US cts equiv.
Spot	[illegible]	[illegible]
3 months	[illegible]	[illegible]
6 months	[illegible]	[illegible]
1 year	[illegible]	[illegible]

Gold Coins	$ price	£ equiv.
Krugerrand	[illegible]	245-248
Maple Leaf	[illegible]	
New Sovereign	[illegible]	57-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	381.8	+2.6	382.3	381.4	118	8
Jan	382.5	+2.5	-	-	1	-
Feb	384.2	+2.5	385.2	382.5	88,808	6,595
Apr	388.2	+2.5	389.1	386.3	13,551	335
Jun	392.4	+2.5	393.3	390.5	21,491	317
Aug	396.6	+2.5	-	-	12,225	219
Total					177,311	7,674

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	418.4	+2.6	420.0	417.5	8,062	3,213
Apr	421.2	+3.1	422.9	419.0	14,922	2,255
Jul	425.2	+3.1	426.5	425.0	2,042	20
Oct	429.2	+3.1	-	-	828	10
Jan	432.9	+3.1	-	-	114	-
Total					25,968	5,498

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	154.70	+0.65	155.60	154.70	14	1
Mar	156.45	+0.65	157.00	156.00	5,931	246
Jun	157.70	+0.65	158.40	157.70	808	-
Sep	158.95	+0.65	-	-	128	-
Dec	158.95	+0.65	-	-	11	-
Total					6,891	247

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	481.1	+5.2	484.0	479.5	65	1
Jan	481.2	+5.2	483.0	477.5	78	1
Feb	483.7	+5.0	-	-	2	-
Mar	486.7	+5.0	490.0	483.5	73,338	6,734
May	492.7	+5.1	495.5	489.0	10,857	119
Jul	499.1	+5.1	501.0	498.0	7,445	25
Total					132,676	7,299

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	17.06	+0.15	17.08	16.88	27,064	27,200
Feb	17.08	+0.14	17.08	16.93	103,215	32,566
Mar	17.16	+0.10	17.16	17.06	55,005	9,478
Apr	17.23	+0.08	17.23	17.13	22,119	3,043
May	17.30	+0.07	17.30	17.24	12,310	543
Jun	17.33	+0.03	17.37	17.32	27,821	811
Total					384,029	77,623

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Feb	16.00	+0.14	16.05	15.86	90,820	12,019
Mar	16.00	+0.12	16.02	15.91	24,873	5,617
Apr	16.03	+0.11	16.03	15.95	12,884	1,624
May	16.03	+0.08	16.06	16.00	7,099	495
Jun	16.07	+0.07	16.08	15.99	7,090	507
Jul	16.10	+0.08	16.12	16.03	4,539	40
Total					185,472	28,937

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	48.05	+0.25	48.65	47.60	27,895	15,989
Feb	48.45	+0.20	48.50	48.10	43,903	7,922
Mar	48.60	+0.10	48.65	48.40	25,914	4,277
Apr	48.40	-	48.40	48.25	14,027	1,357
May	48.10	-	48.15	48.00	7,848	978
Jun	47.90	-0.15	47.90	47.80	6,670	258
Total					158,781	32,464

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	141.25	+0.75	141.50	140.00	40,534	5,815
Feb	143.50	+0.25	144.25	143.00	25,659	2,230
Mar	145.75	+0.25	146.00	145.25	12,672	472
Apr	146.50	+0.50	146.75	146.00	4,477	386
Jun	147.50	+0.25	147.75	147.50	1,851	-
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	106.45	+0.35	106.45	105.50	984	33
Mar	107.60	+0.25	107.75	107.00	1,821	44
May	109.60	+0.30	109.95	109.00	1,798	117
Jul	110.85	-	-	-	277	-
Sep	95.75	-	-	-	80	-
Nov	97.50	+0.35	97.50	97.60	1,077	10
Total					6,129	205

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	384/0	+0/6	384/0	380/4	365	469
Mar	397/0	+0/2	398/4	393/4	45,801	16,415
May	375/4	-2/0	377/6	373/4	7,954	2,339
Jul	344/6	-2/4	347/0	342/6	14,584	2,522
Sep	349/0	-1/6	350/6	348/4	775	21
Dec	359/0	-2/0	359/0	358/0	289	4
Total					69,762	21,764

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	219/0	+3/0	219/2	215/2	1,158	1,693
Mar	228/6	+2/0	229/6	226/2	115,575	21,332
May	236/0	+1/6	237/0	233/4	45,590	2,696
Jul	240/2	+1/6	241/0	238/0	45,240	1,634
Sep	243/6	+1/4	244/2	241/6	5,117	130
Dec	247/6	+1/2	248/2	245/4	29,032	932
Total					245,677	28,520

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	103.50	+0.15	103.50	103.35	375	20
Mar	105.45	+0.30	105.45	105.15	300	10
May	107.30	+0.30	-	-	62	-
Sep	95.75	-	-	-	30	-
Nov	97.25	+0.45	-	-	87	-
Jan	98.90	-	-	-	-	-
Total					784	30

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	560/6	+1/2	561/4	557/6	34,505	17,161
Mar	572/0	+1/4	572/4	568/2	37,368	7,238
May	580/6	+2/0	581/2	577/0	18,339	2,181
Jul	586/4	+2/0	587/0	583/0	27,052	1,650
Aug	589/0	+1/6	589/0	585/4	2,253	48
Sep	588/2	-0/4	588/4	587/4	1,231	31
Total					134,914	29,116

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	29.27	-0.07	29.30	29.07	3,003	4,255
Jan	27.64	-0.13	27.80	27.42	32,327	11,688
Mar	26.79	-0.02	26.85	26.51	29,907	7,800
May	25.89	-0.05	25.95	25.62	19,000	1,653
Jul	25.44	-0.11	25.60	25.23	11,567	1,022
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1036	+13	1036	1018	3,124	357
Mar	988	+12	998	987	42,946	6,523
May	984	+11	990	985	17,966	1,826
Jul	990	+11	991	974	7,442	209
Sep	1000	+12	1002	981	12,837	1,926
Dec	1013	+12	1013	997	12,178	119
Total					108,877	11,883

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	1340	+43	1344	1285	35,978	4,298
May	1350	+40	1357	1298	12,319	550
Jul	1371	+36	1375	1324	8,479	449
Sep	1392	+38	1394	1341	2,182	98
Dec	1419	+38	1419	1375	4,708	37
Mar	1411	-	-	-	6,710	11
Total					74,858	5,453

■ COCOA (ICCO) (SDR's/tonne)

Dec 19	Price	Prev. day
Daily	978.91	969.42

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	2646	-28	2650	2600	7,790	552
Mar	2632	-17	2635	2590	11,643	1,604
May	2603	-21	2603	2565	5,562	618
Jul	2580	-28	2580	2545	2,075	34
Sep	2565	-28	2565	2540	2,573	9
Nov	2565	-20	-	-	561	-
Total					30,287	2,817

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	162.30	-6.20	159.00	159.00	5	31
Mar	161.65	+2.80	162.80	158.60	17,315	4,412
May	162.50	+2.20	162.70	158.60	6,696	794
Jul	163.40	+3.00	163.50	159.50	2,815	489
Sep	163.50	+1.90	163.50	160.50	2,225	338
Dec	163.10	+3.00	163.30	160.00	1,958	232
Total					31,380	6,306

■ COFFEE (ICO) (US cents/pound)

Dec 19	Price	Prev. day
Comp. daily	143.74	143.18
15 day average	147.57	148.38

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	13.00	-	-	-	-	-
Mar	15.13	+0.10	15.13	14.95	370	110
May	15.20	+0.03	-	-	660	-
Jul	14.95	-	-	-	300	-
Total					[illegible]	[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Dec 20	Dec 19	month ago	year ago
2186.6	2199.6	2123.3	1899.0

■ CRB Futures (Base: 1967=100)

Dec 19	Dec 16	month ago	year ago
231.86	232.08	231.50	224.79

Minor Metals

European free market, from Metal Bulletin, $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.6%, $ per tonne, 5,500-5,650 (5,750-5,850). Bismuth: min. 99.99%, tonne lots 3.55-3.85. Cadmium: min. 99.5%, 170-190 cents a pound. Cobalt: MB free market, 99.8%, 28.30-29.00 (27.50-28.50); 99.3%, 26.50-27.00 (26.00-27.00). Mercury: min. 99.99%, $ per 76 lb flask, 125-140. Molybdenum: drummed molybdic oxide, 15.00-15.75 (15.00-16.00). Selenium: min 99.5%, 3.45-4.50. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, cif, 50-60. Vanadium: min. 98%, cif, 3.00-3.50 (2.75-3.00). Uranium: Nuexco exchange value, 7.15.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	70.300	-0.160	70.450	70.000	2,088	1,080
Feb	70.825	+0.025	70.700	70.200	31,157	6,064
Apr	71.000	-0.125	71.125	70.800	22,088	2,805
Jun	65.950	-0.200	66.150	65.850	7,131	1,218
Aug	63.875	-0.175	64.100	63.800	3,213	247
Oct	64.450	-0.300	64.600	64.400	1,651	24
Total					67,667	11,219

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	33.900	-0.800	34.450	33.750	900	178
Feb	37.800	-0.125	37.950	37.575	14,116	4,666
Apr	37.700	-	37.750	37.400	8,465	1,357
Jun	43.375	+0.250	43.425	42.925	4,680	573
Aug	43.100	-0.200	43.300	42.950	1,478	37
Oct	40.950	-0.325	41.125	40.900	1,061	119
Total					32,138	7,062

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	38.825	-0.100	38.950	38.025	6,772	1,217
Mar	38.275	-0.025	38.300	38.300	1,539	237
May	38.850	-0.250	38.900	38.600	543	45
Jul	41.100	-0.200	41.100	40.450	528	31
Aug	39.700	-0.375	40.100	39.600	235	17
Feb	48.325	-0.525	48.700	48.325	19	11
Total					9,646	1,547

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1800	178	202	76	114
1850	124	164	121	163
1900	83	115	179	220
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
2800	180	-	102	-
2850	130	-	150	-
2900	91	-	209	-
■ COFFEE LCE	Jan	Mar	Jan	Mar
2500	149	234	23	102
2550	105	206	45	124
2600	68	180	76	148
■ COCOA LCE	Mar	May	Mar	May
900	99	110	11	26
925	80	93	17	34
950	64	78	26	44
■ BRENT CRUDE IPE	Jan	Apr	Jan	Apr
1600	[illegible]	[illegible]	[illegible]	[illegible]
1650	[illegible]	[illegible]	[illegible]	[illegible]
1700	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Feb) +or-

Dubai	$15.32-5.42u	+0.140
Brent Blend (dated)	$15.78-5.80	+0.165
Brent Blend (Feb)	$16.06-6.08	+0.165
W.T.I. (1pm est)	$17.07-7.09u	+0.230

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$157-159	
Gas Oil	$140-142	+1
Heavy Fuel Oil	$97-99	
Naphtha	$160-164	-1.5
Jet fuel	$157-159	+1.0
Diesel	[illegible]	+1

Petroleum Argus. Tel. London (071) 359 8792

■ OTHER

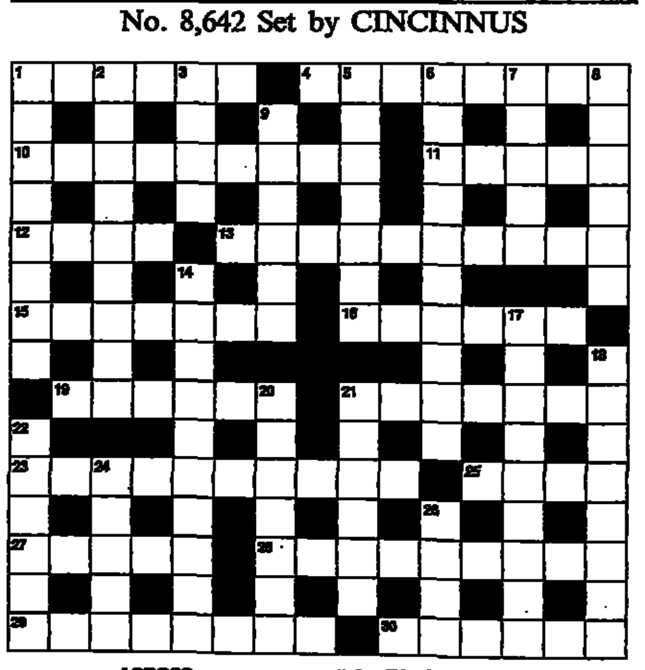
Gold (per troy oz)‡	$382.00	+2.70
Silver (per troy oz)‡	482.5c	+3.0
Platinum (per troy oz.)	$416.75	+3.50
Palladium (per troy oz.)	$153.65	+1.10
Copper (US prod.)	141.0c	-2.0
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.00r	+0.10
Tin (New York)	275.5c	
Cattle (live weight)	120.33p	-2.89*
Sheep (live weight)†	110.57p	-0.13*
Pigs (live weight)	84.55p	+0.67*
Lon. day sugar (raw)	$384.40	-6.20
Lon. day sugar (wte)	$414.50	-7.00
Tate & Lyle export	£346.00	-6.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£132.0	
Wheat (US Dark North)	£165.0	
Rubber (Jan)¶	103.50p	
Rubber (Feb)¶	103.50p	
Rubber (KL RSS No1 Jul)	389.0m	+3.0
Coconut Oil (Phil)§	$662.5y	-7.5
Palm Oil (Malay)§	$697.5z	-7.5
Copra (Phil)§	$442.0q	
Soyabeans (US)	£170.0z	
Cotton Outlook'A' index	87.65c	
Wooltops (64s Super)	470p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. [illegible] ‡ Bullion market close. [illegible] * Change on week. † Prices are for previous day. [illegible]

JOTTER PAD

CROSSWORD

No. 8,642 Set by CINCINNUS



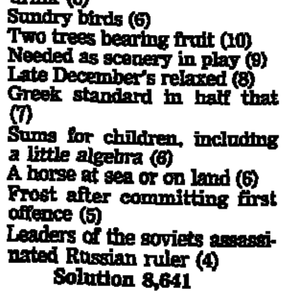
ACROSS

1 Parts of fir may divide into branches (8)
4 Amorphous mass taken in at lower cost (6)
10 Bell-tower in Pennsylvania between two rivers (9)
11 Letters from Keats in the post (5)
12 Vexed about god (4)
13 One who recruits a Master of Foxhounds? (10)
15 Sweets are provided – and that is in the Civil Service (7)
16 Foolishly loving a money-grabbing scoundrel (6)
19 Troubles seem to start with tender touch (6)
21 Intolerable sentimentality in production of Electra (7)
23 On the borders of Surrey catch neighbouring county crawlers (10)
25 Salamis, Lemnos, or part thereof (4)
27 College window (5)
28 The charms of the post-Reformation Latin mass? (10)
29 Smooth air service (6)
30 Running in a derby, sounded like an ass (6)

DOWN

1 Fight fire with hiking gear (8)
2 Roman made to translate notes (9)
3 Order an Italian car (4)
5 In Rigoletto Verdi definitely exaggerated (7)
6 Prophet holding capital for pests (10)
7 Precise old law? (5)
8 Miss the mark and throw out drink (6)
9 Sundry birds (6)
14 Two trees bearing fruit (10)
17 Needed as scenery in play (9)
18 Late December's relaxed (8)
20 Greek standard in half that (7)
21 Sums for children, including a little algebra (6)
22 A horse at sea or on land (6)
24 Frost after committing first offence (5)
26 Leaders of the soviets assassinated Russian ruler (4)

Solution 8,641



هكذا من الاصل

LONDON STOCK EXCHANGE

MARKET REPORT

Takeover talk helps drive Footsie towards 3,100

By Steve Thompson

Takeover stories, actual and rumour-based, continued to dominate the UK equity market yesterday with news of De La Rue's £682m bid for Portals, and the prospect of many more bids and mergers in coming months, overriding the market's fundamental concerns over the short term prospects for domestic and international interest rates.

As the London market closed, no hard news had emerged from the Federal Open Market Committee's meeting held to discuss monetary policy, although Wall Street was under renewed pressure for much of the afternoon and down over 20 points an hour after London closing.

The feeling remained in both Europe and the US that the Federal Reserve would want to examine all the economic evidence from the fourth quarter before it moved to increase its interest rates so soon after the last move. That took place in mid-November when the Fed increased its Fed Funds rate by 75 basis points to 5½ per cent.

On top of the previous session's 16-point fall, dealers said the latest weakness had produced some tremors around UK dealing desks during the last two hours of trading.

But the general consensus among traders was that London would probably wind down for the Christmas holiday in good form, given no shift in US interest rates.

Helping to sustain all European equity and bond markets was more good news on inflation and money supply from Germany. Germany's M3 money supply grew by an annualised 6 per cent in the year to end-November, much better than the consensus forecast of 6.3 per cent and the annualised 6.9 per cent for the year to end-October. Inflation figures for November from Bavaria were also seen as bullish for markets.

"The German numbers were very good for the markets, well within target ranges," said the head trader at one of the leading European banks in London. He added that London's equity market would take heart from any strength in Euro bourses, especially Frankfurt.

The Bundesbank Council meets in Frankfurt tomorrow to decide the course of German interest rates.

By the close of trading the FT-SE 100 index had risen a further 23.7 to 3,058.1, its highest level since the end of November and a rise of 114.7, or 3.9 per cent since December 12 when the market was reeling from a combination of political and economic worries.

The FT-SE Mid 250 Index was left behind by its senior index, closing only 3.7 higher at 3,463.7.

Earlier, the market had begunon a quiet note, mindful of the overnight fall on Wall Street. Down 3.9 at the outset the FT-SE 100 index quickly rallied as news of the De La Rue bid for Portals – at a much higher than expected price – and other potential bids hit the market. Helping the market move ahead was a £30m-plus programme trade which was said to have been weighted on the buy side and executed by UBS.

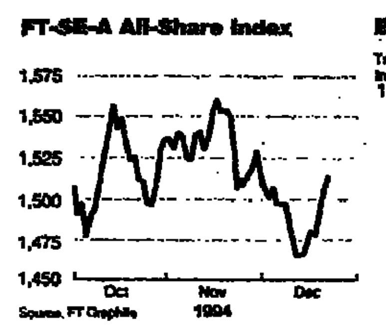
Turnover, boosted by the UBS programme trade, increased to a highly respectable 798.4m shares, with non-Footsie stocks providing almost 66 per cent of that figure. Customer business on Monday was worth £1.275bn.

De La Rue, although feeding the market's takeover appetite with its agreed offer for Portals, suffered from the view that the company was paying a full price for the paper manufacturer.

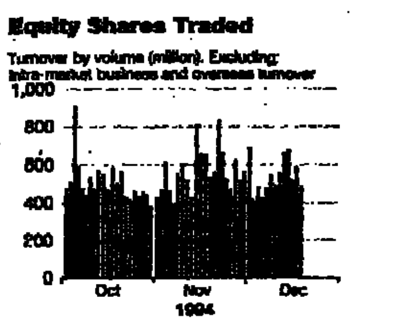
The merchant banks and securities houses attracted yet another wave of strong buying interest as speculators continued to bet on a series of rationalisation moves in the UK securities business.

Kleinwort Benson and Smith New Court, both highly-rated and sizeable players in London markets, moved near their highest levels since February, when bond and equity markets began their interest rate driven descent.

FT-SE-A All-Share Index



Equity Shares Traded



■ Key indicators

Indices and ratios

FT-SE 100	3058.1	+23.7	FT Ordinary index	2349.9	+18.8
FT-SE Mid 250	3463.7	+3.7	FT-SE-A Non Fins p/e	17.97	(17.90)
FT-SE-A 350	1530.5	+9.5	FT-SE 100 Fut Dec	3086.0	+23.0
FT-SE-A All-Share	1514.74	+8.88	10 yr Gilt yield	8.59	(8.57)
FT-SE-A All-Share yield	4.04	(4.06)	Long gilt/equity yld ratio:	2.14	(2.13)

Best performing sectors

1 Pharmaceuticals .... +2.1
2 Telecommunications .... +1.3
3 Consumer Goods .... +1.1
4 Retailers, General .... +1.1
5 Extractive Industries .... +1.0

Worst performing sectors

1 Electricity .... -0.4
2 Insurance .... -0.3
3 Engineering, Vehicles .... -0.2
4 Printing, Paper & Pkg .... -0.2
5 Media .... -0.2

Extended play for Zantac

Pharmaceuticals leader Glaxo forged ahead 23 to 662½p as good news on its key drug prompted a rush of buying which sent the shares up to their highest level since they were routed back in March. Turnover of 19m shares was at the upper end of the stock's historic daily activity.

Zantac, the anti-ulcer treatment which represents around half of the company's turnover, was due to lose its principal US patent at the end of next year. But changes in international patent law as a result of the latest Gatt agreement mean the patent has been extended until mid-1997.

Zantac has annual sales in the US of about $2bn (£1.2bn) and one analyst calculated yesterday that extension of the patent could save up to £900m over the 18-month period. However, the bears were not prepared to change their views, arguing that the news did not fundamentally alter the doubts hanging over the company.

The long-awaited bid for Portals, the specialist paper group, by bank note printer De La Rue finally hit the screens yesterday and sent the shares of the two companies in different directions.

For Portals the agreed bid, which represented a paper and cash offer worth about 1035p a share at yesterday's close, it meant the end of more than 280 years of independence but a good deal for shareholders, whose investments were worth only 760p a share three weeks ago.

For De La Rue the offer, carrying a cash equivalent of 1011p, was seen to be stretching the bank balance particularly as, according to some analysts, it went against earlier assurances that there would be no dilution of earnings.

Ms Sonia Falaschi of UBS commented: "It is a pretty full price, but strategically it is the right thing to do." Portals rose 60 to 1025p, while De La Rue fell 34 to 922p.

Recently floated TeleWest Communications dipped 1½ to 179½p following pressure from delayed trades which pushed turnover to 9.2m.

A number of securities houses are known to be bearish on the stock, Robert Fleming Securities adding to the gloom yesterday with a sell note that drew attention to the December 30 deadline for the close of TeleWest's stabilisation period.

The shares are 2½p short of their issue price. Much of the selling was said to be coming from Wall Street, where telecoms shares remain out of favour.

In contrast, BT added 4 at 379p on 6.8m turnover and Cable and Wireless improved 4½ to 373p for a two-day advance of 11½. Talk of a possible hive-off within C&W continued to circulate. Vodafone moved up 5½ to 206½p on 7.2m traded.

Dealers in the regional electricity stocks chose yesterday to take profits on several stocks following the recent run. Bid target Northern Electric was among those that retreated on the profit-taking, losing 16 at 1002p. Seeboard registered one of the biggest falls in the sector, ending 22 off at 455p.

News that electricity generator PowerGen has agreed to buy between 6.5 and 8 per cent of its own shares when the government sells its 40 per cent stake in the group next February saw the stock up 7 to 521p.

Wellcome rose 18 to 696p as some dealers suggested that US group Warner Lambert was interested in making a bid for the pharmaceuticals group. Wellcome has been seen as "biddable" for some time and there was heavy activity in traded options.

ICI improved 7 to 762p as Goldman Sachs raised its 1994 profits forecast to £515m from £500m and the figure for 1995 to £750m from £710m.

Positive press comment boosted drinks group Cadbury-Schweppes by 7½ to 415p.

Views in the market on Trafalgar House, which is currently bidding for Northern Electric, were polarised after Smith New Court upgraded its recommendation from a hold to a buy, while NatWest Securities advised shareholders to reduce their holdings. The shares added a penny at 74p.

Suggestions that the UK hotel market was continuing to improve saw hotels group Forte harden 4½ to 241½p. The same market was said to be improving overseas and dealers turned their attention to Ladbroke, which operates Continental hotels and several in Japan. The shares moved forward 3 to 163p.

Hopes of improved spending over the Christmas season boosted stocks in the stores sector. One of the biggest rises was seen in Kingfisher, 10 higher at 439p.

However, Goldman Sachs remained cautious on the sector, and Mr Rod Whitehead, stores analyst at the US investment bank, believes many companies are likely to come out with disappointing trading statements next month. He said: "Companies are unlikely to make up the ground lost in October and November.

Elsewhere among stores, House of Fraser relinquished 4 at 176p, after a block of 5.1m shares was crossed at 175p, well below the market price.

Vickers was easier at 178½p in spite of the way most analysts found clear favour with the engines collaboration deal between the group's Rolls-Royce Motor Cars subsidiary and BMW, of Germany.

With 2.5m shares changing hands at 173p apiece as part of a big programme trade, aerospace group Rolls-Royce saw turnover climb to 11m. The shares closed flat at 172p.

Taylor Woodrow moved ahead 6 to 130p after a further round in the company's share buy-back programme which mopped up 785,300 shares on Monday.

A housebuilding update by NatWest Securities promotes Taylor Woodrow as the stock with the least downside in the sector.

Heating and air conditioning hire specialist Andrews Sykes jumped 21 to 158p, triggering a statement from the company that it knew of no reason for the share price movement. Brandon Hire appreciated 7 to 92½p.

Perceived bid candidates in the banking sector of the market shot forward, with Smith New Court jumping 16 to 444p and Kleinwort Benson 13 to 548p.

Media conglomerate Pearson fell 9½ to 557½p on a spate of small negative stories and a line of more than half a million shares dealt at 558½p. Some analysts have been shaving forecasts after meeting with the company.

Composite insurers were victims of their recent strong performance. Commercial Union, which has outperformed the FT-SE-A All-Share Index by 8 per cent over the past three months, fell 12 to 524p as one investor decided enough was enough and lightened holdings.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 18

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (28).
BUILDING & CNSTRN (2) Andrews Sykes, Brandon Hire, BLDG MATLS & MCHTS (1) Eclipse Blinds, ELECTRNC & ELECT EQUP (1) Telepac, ENG. VEHICLES (1) Irish Permanent, FOOD MANUF (1) Greencore, INVESTMENT TRUSTS (4) Brazilian, For & Col Spl Cap, Murray Split Cap Zero Dis Prf, TR Tech Zero Prf., LEISURE & HOTELS (1) VCI, LIFE ASSURANCE (1) Liberty Life Assoc of Africa, OTHER FINANCIAL (1) BZW Endowment Fd, PHARMACEUTICALS (3) SmithKline Beecham A, Do. Equity Units, Zeneca, PRTNG, PAPER & PACKG (3) Portals, Sappi, Tinsley Robor, SUPPORT SERVS (2) Logica, Servisair, TEXTILES & APPAREL (2) Bridport-Gundry, Wensum, TRANSPORT (1) Go-Ahead, WATER (1) South Staffs, AMERICANS (2) Amdahl, Gillette, SOUTH AFRICANS (1) Barlow.

NEW LOWS (28).
BREWERIES (1) Young Brew N-Vtg, BUILDING & CNSTRN (1) Banner Homes, BLDG MATLS & MCHTS (1) Spring Ram, DISTRIBUTORS (1) Brown & Tawse, DIVERSIFIED INDLS (2) Amer Grp, Staveley Inds., ELECTRNC & ELECT EQUP (2) Chloride, Kenwood Appliances, ENGINEERING (3) APV, Molins, SKF, ENG. VEHICLES (1) Motor World, FOOD MANUF (1) JLI, HEALTH CARE (4) Amersham Intl, Drew Scientific, Isotron, Specialeyes, HOUSEHOLD GOODS (1) Airsprung Furniture, INSURANCE (1) Oriel, INVESTMENT TRUSTS (11) LEISURE & HOTELS (3) Barr & Wallace Arnold Tst, Do. A, Granada Cv. Prf., MEDIA (1) News Intl. Special Div., OIL EXPLORATION & PROD (2) Bitech, Utd. Energy, OTHER FINANCIAL (2) Berry, Birch & Noble, Hambro Ins Service, OTHER SERVS & BUSNS (2) Porth, Waste Man, PROPERTY (4) Allied London, Bilton, Newport, Stanhope Props., RETAILERS, GENERAL (3) Fine Art Devlps., House of Fraser, Rosebys, SPIRITS, WINES & CIDERS (1) Merrydown, SUPPORT SERVS (2) Clinical Computing, Coda, TEXTILES & APPAREL (3) Readicut, Sherwood, Simms, TRANSPORT (1) Sea Containers B, AMERICANS (1) Pennzoil, CANADIANS (1) BC Gas.

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures moved ahead strongly for the third session in a row, but trading volume was less than half of Monday's depressed levels, *writes Jeffrey Brown.*

At the close of pit trading the FT-SE 100 March contract was at 3,085, up 23 for a three-day advance of 92 points. The premium to the cash market was 26 points, or three points above fair value.

Activity was negible, however. Many traders have already closed their books for the year and those that continue to sit by the telephone report a dismal lack of business.

The March contract traded at a substantial premium to the cash market all day, occasionally moving out to a premium of 35 points. But even under these conditions arbitrage business was modest at best.

Just 3,999 lots had been traded by the official 4.10pm close, down from 9,216 on Monday and in contrast to the 15,000 at which most dealers reckon that the market starts to pay its way. In these conditions the strong gains achieved by the March contract are impossible to interpret, said traders.

Option volume remained dull, 29,443 contracts comparing with 26,292 on Monday. FT-SE and Euro FT-SE business accounted for 10,600 lots. Drugs group Wellcome was the most active stock option, clocking up 3,658 lots.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	3059.0	3086.0	+23.0	3094.0	3056.0	8551	54610
Jun	3091.5	3097.0	+23.0	3091.5	3091.5	9	2916

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	3475.0	3495.0	+20.0	3475.0	3475.0	1	3898

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	433	330	+1
ASDA Group†	2,300	64¾	+¼
Abbey National†	1,400	422	+3
Albert Fisher	654	46	
Allied Domecq†	1,900	564	+4
Anglian Water	196	495	-1
Argos	134	345	+8
Argyll Group†	1,800	253	+1
Arjo Wiggins†	2,800	240½	-½
Assoc. Brit. Foods†	274	564	+4
Assoc. Brit. Ports	1,200	278	+3
BAA†	2,000	472	-3
BAT Inds.†	2,700	443	+5
BET	1,700	103½	-1
BICC	968	341	+3
BOC†	944	712	-1

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	14	41	15
Other Fixed Interest	1	0	13
Mineral Extraction	68	42	86
General Manufacturers	141	85	402

TRADITIONAL OPTIONS

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

FT GOLD MINES INDEX

FT - SE Actuaries Share Indices — The UK Series

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	□	£22⅛	-⅛	£25¾	£19⅞	8,724	5.0	ф
ANZ A$		205	+2	278¾	171	2,728	6.1	ф
Abbey National	†♣□	422	+3	522	380½	5,586	4.8	14.2
Allied Irish IE	♣†♣□	258	+3	314	233	1,718	4.9	9.9
Anglo Irish IE	♣□	54xd	—	*70	50	108.8	8.2	ф
Asahi Y	□	738	+9	899¼	628	17,138	0.8	ф
Banco Bil Viz Pta	□	£18⅞	+⅛	£17	£14⅛	3,840	6.0	7.4
Banco Sant Pta		£24⅝	—	*£30½	£23¾	3,721	5.8	8.6
Bk Ireland IE	†♣□	288xd	—	*319	245	1,368	5.0	8.3
Bank Scotland	♣†♣□	219	+½	247	172½	2,454	3.2	11.8
9¼pc Pf		117½	+¼	141½	106	117.5	9.8	-
9⅜pc Pf		123¼	+¼	148½	111¼	123.2	9.9	-
Barclays	♣†♣□	610	+1	640	487	9,942	3.4	18.8
Dai Ichi Kan Y	□	£12	+⅛	£12⅞	£10⅛	37,486	0.5	-
Deutsche DM	□	£283¾	+⅛	£344¼	£270⅞	13,814	2.3	-
Espirito Santo	□	£8⅝	—	*£13⅛	£7⅞	174.8	4.7	4.1
First Nat Fin	♣□	68	—	*80	59	99.8	3.2	-
6.3pc Cv Pf		68xd	—	*90	68	4.67	11.6	-
7pc Cv Pf		111xd	—	171	110	52.7	7.9	-
Fuji Bank Y	□	1373¼	+5¼	1569¼	1152½	38,003	0.4	ф
HSBC HK	†♣□	701	+14	1133	684	12,298	4.4	10.1
HSBC (75p Shs)	†♣□	718	+12	1113	680	6,040	4.3	10.3
Irish Permanent	♣□	227	+2	238	205	172.8	5.1	7.9
Lloyds	†♣□	567	+8	600	519	7,354	5.1	11.2
Mitsubishi Y	□	£15⅛	+⅛	£18⅞	£13⅞	44,484	0.4	ф
Mits Tst & Bk Y	□	948	+6¼	1102¼	687½	11,370	0.5	15.0
Mitsui Tst & Bk Y	□	655	+12¼	679	514	7,846	0.8	21.9
Nat Aust A$		522	-28	680¼	472	6,987	7.0	ф
NatWest	†♣□	512	+2	522	421	8,780	4.7	9.5
Ottomane FFr		£21⅛	—	£33	£21	107.5	6.8	ф
Ryl Bk Scotland	♣♣□	415xd	+6	528	377½	3,324	4.1	10.0
Sakura Y	□	£8⅛	—	£9⅞	£8⅛	28,173	0.6	52.2
Sanwa Y	□	£12⅝	+⅛	£15⅞	£11⅞	30,808	0.5	-
Standard Chartd.	†♣□	206	+6	*358¼	223	2,737	2.8	8.7
7.38pc Pf		84½	+¼	108½	82¾	94.2	9.8	-
Sumitomo Y	□	£11⅞	+⅛	£16⅛	£10⅞	37,129	0.5	-
Sumitomo Tst Y	□	888	+12	1148½	625	18,616	0.6	ф
TSB	†♣□	236	-2	291	187	3,613	4.3	11.9
Tokai Y	□	£7⅞	—	£9	£6⅞	15,574	0.8	47.8
Toyo Tst & Bk Y	□	684½	+5¼	852	586¼	5,223	0.7	58.3
Westpac A$		214¼	+1½	280	194	3,989	2.5	ф
Yasuda Tst Bk Y	♣□	491¼	+2½	658	442	5,424	1.0	43.2

CHEMICALS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
AGA SKr	□	£5⅞	+⅛	*£7⅞	£4⅞	698.4	14.7	2.8
Akzo Fl	□	£78⅞	-⅜	£82⅛	£62⅜	3,204	3.4	18.6
Allied Colloids	†♣□	128	—	*158½	115½	674.8	2.4	18.0
Amber Ind	†♣	788xd	—	790	705	30.5	3.4	15.8
BASF DM	□	£123⅞	+1	£140⅞	£106⅞	7,246	3.8	-
BOC	♣♣□	712xd	-1	787	627	3,489	4.4	28.9
BTP	♣†♣□	288xd	—	*373	281	388.4	4.5	78.1
Bayer DM	□	£149⅛	+2⅛	£168⅛	£128⅞	8,768	3.1	-
Brent	♣□	107	+3½	131	96	72.3	4.7	-
British Vita	†♣□	225	—	308	219	483.9	4.1	17.0
Cambridge Iso $	♣	18	—	25	18	2.48	-	-
Canning (W)	♣♣□	163	—	189	153	51.8	5.0	31.0
Camerone	♣♣	46	—	100	46	10.1	7.3	6.2
Warrants		17	—	48	17	0.15	-	-
Courtaulds	†♣□	440xd	+2	580	420	1,780	4.2	30.9
Croda	†♣□	392	+2	389	327	595.4	2.8	16.4
Doeflex	♣♣	139	+2	149	95	14.1	4.3	13.4
Engelhard $		£14⅛	+⅛	£20⅞	£13½	1,361	2.2	-
European Colour	♣†♣□	39½xd	—	68½	35½	17.8	2.9	16.9
Gibbon	♣♣	120	—	140	110	18.8	5.8	10.8
Hickson	♣♣□	128	—	223	126	221.4	7.9	11.3
Hoechst DM	□	£130¼	+⅛	£153⅞	£108⅞	7,702	2.8	-
Holliday Chemical	†♣□	199	—	*238	153¼	218.9	2.7	18.6
ICI	♣□	782	+7	869	727	5,518	4.5	61.5
Inspec	♣□	218	+1	232	178	104.2	2.0	35.5
Kalon	♣†♣□	110½	+½	191½	108	148.0	5.0	10.5
Laporte	♣†♣□	697	—	843	675	1,326	3.8	17.6
MTM	♣♣□	80	—	95	48	29.7	0.8	-
Manders	♣□	292	—	405	290	116.8	4.3	14.2
McLeod Russel	♣□	113xd	—	127	100	68.1	6.9	ф
Metrotect Inds	♣♣□	67xd	—	128	61	18.2	6.4	9.1
Perstorp SKr	□	£25	+⅛	£32⅛	£20⅞	122.3	1.6	30.6
Porvair	♣†♣	290	—	340	265	45.0	1.9	21.8
Scapa	♣†♣□	192xd	+½	272	188	405.3	3.9	15.6
Suleliffe Speak	♣†♣□	32	+1	66	29	18.0	2.8	18.9
Wardle Storeys	♣□	338xd	—	480	337	84.4	6.4	18.0
Wolington	♣□	197	—	220	191	46.2	3.4	18.5
Wolstenholme	♣†♣	703	—	823	570	58.7	3.0	18.6
Yorkshire	♣†♣□	354	—	*483	345	162.1	2.9	15.3
Yule Catto	†♣□	268	—	338	258	279.7	2.9	21.3

DISTRIBUTORS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

هكذا من الاصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OIL EXPLORATION & PRODUCTION - Cont.

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

TRANSPORT - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

WATER

AMERICANS

LIFE ASSURANCE

MEDIA

OTHER SERVICES & BUSINESSES

CANADIANS

TELECOMMUNICATIONS

OTHER INVESTMENT TRUSTS

SOUTH AFRICANS

TEXTILES & APPAREL

INVESTMENT COMPANIES

PHARMACEUTICALS

RETAILERS, FOOD

GUIDE TO LONDON SHARE SERVICE

MERCHANT BANKS

PRINTING, PAPER & PACKAGING

RETAILERS, GENERAL

OIL EXPLORATION & PRODUCTION

TOBACCO

TRANSPORT

LEISURE & HOTELS

PROPERTY

n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT1984. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An International service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الاصل

هكذا من الاصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

Fund	Selling Price	Buying Price	+ or -	Yield Gross
Credit Investment Funds - Contd.	[illegible]	[illegible]	[illegible]	[illegible]

NICAM Asia Pacific Umbrella Fund

Nikko Asia Convertible Bond Fund

Nikko Bank (Luxembourg) S.A.

Nomura Asian Infrastructure Fd SICAV

Nomura Rosenberg Alpha Fund Mark II

Pacific Basin Growth Fund

Rosenberg Global Mngt Co SA (a)

Rosenberg Management SA (a)

Rosenberg US Japan Mngmt Co SA (a)

Edmond de Rothschild Group

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar marks time as markets wait for FOMC

Most foreign exchange traders took to the sidelines yesterday as trade slackened ahead of the meeting of the Federal Open Markets Committee, *writes Philip Gawith.*

Markets were expecting the Fed to leave interest rates on hold, but the chance of a surprise move was sufficient to encourage caution.

The dollar closed in London at DM1.572, from DM1.5738, and at Y100.13 from Y100.155. The FOMC meeting was still in progress when European trading closed.

The main excitement came from Mexico, where the government sanctioned a 15 per cent devaluation in the peso. The upper limit of the peso's trading band against the dollar was raised by 53 centavos.

The daily rate at which the peso is permitted to slide against the dollar, equivalent to 4.3 per cent in a year, was maintained after the devaluation. The peso closed in London at 3.835 against the dollar, 12 per cent down from Monday's close of 3.4647.

In Europe the lira remained the main focus, ahead of the no-confidence vote later this week. It touched a record low of L1,049.80 against the D-Mark, but the market shied away from pushing it through the L1,050 barrier.

Sterling had a quiet day, with the trade-weighted index unchanged on the day at 80.3.

■ The decision to devalue the peso was taken by members of the Pact for Well-Being, Stability and Growth. They include government, business, labour and campesino leaders. The Pact said the decision to allow the peso to slide was taken in response to rebel threats in the Chiapas region that have recently unsettled Mexican financial markets.

A growing current account deficit, however, also provides an economic explanation for currency weakness. Before yesterday's move, some observers had considered the peso overvalued, despite it having fallen by more than 10 per cent against the dollar during the year.

Mexico's current account deficit is expected to widen to about $28bn this year, or more than 7 per cent of gross domestic product. With capital flows insufficient to finance the deficit, reserves have fallen by about $10bn since February, and short-term interest rates have risen above 14 per cent, more than 7 per cent in real terms.

Some economists argued that for interest rates to come down and economic growth to accelerate, above the three per cent expected for this year, a devaluation was necessary.

Until yesterday, the government had been opposed to a devaluation, arguing that interest rates would still rise, to quell concerns about imported inflation, while Mexican companies with large foreign currency loans would suffer heavy losses.

Last week Mr Jaime Serra Puche, finance minister, said the peso would be defended with higher interest rates, at the expense of 1995 growth targets.

The bellwether interest rate on the 91-day tesobono, a dollar-denominated money market instrument, rose after the announcement by 88 basis points to 8.28 per cent.

The pact said, however, that Mexico would be able to meet its economic goals in 1995, particularly that of price stability, supply and economic growth.

■ The dollar showed little response to the release of October trade figures, despite a widening in the bilateral deficit with Japan.

Ahead of the FOMC meeting, analysts said the dollar had limited downside if interest rates were kept on hold.

Mr Neil MacKinnon, chief economist at Citibank in London, said investors were expecting the dollar to move higher in 1995.

After meeting recently with a cross-section of the firm's US clients, he said he "did not come across anybody who was bearish on the dollar." His view that the dollar would reach DM1.65/70 next year, possibly in the first quarter, "seemed to be generally accepted."

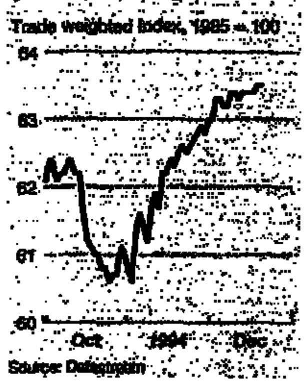
Mr MacKinnon said rising German interest rates – he expects the first upward move in the first quarter of 1995 – would cap the dollar's progress.

He said it was also his impression that the Bundesbank did not like the D-Mark slipping through the DM1.70 level against the dollar.

■ The Bank of England cleared a £850m money market shortage, mostly through late assistance.

Dollar

Trade weighted index, 1985 = 100



Source: Datastream

■ Pound in New York

Dec 20	—Latest—	— Prev. close —
£ spot	1.5610	1.5605
1 mth	1.5608	1.5602
3 mth	1.5609	1.5604
1 yr	1.5586	1.5580

■ OTHER CURRENCIES

Dec 20	£	$
Hungary	176.156 - 176.387	112.920 - 113.020
Iran	2727.40 - 2730.55	1748.00 - 1750.00
Kuwait	0.4678 - 0.4688	0.2999 - 0.3004
Poland	37814.40 - 37857.7	24240.0 - 24260.0
Russia	5359.63 - 5364.31	3435.00 - 3438.00
U.A.E.	5.7291 - 5.7317	3.6725 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Dec 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2665	-0.0337	598 - 732	17.2691	17.2548	17.2527	1.0	17.2121	1.3	-	-	115.5
Belgium	(BFr)	50.4250	-0.115	114 - 385	50.5130	50.2720	50.44	-0.4	50.32	0.8	49.72	1.4	117.1
Denmark	(DKr)	9.6295	-0.012	252 - 337	9.6392	9.6220	9.6261	0.4	9.6337	-0.2	9.6002	0.3	116.6
Finland	(FM)	7.5953	-0.0197	863 - 043	7.6180	7.5810	-	-	-	-	-	-	87.6
France	(FFr)	8.4620	-0.0113	583 - 657	8.4720	8.4542	8.4608	0.2	8.4568	0.2	8.404	0.7	109.7
Germany	(DM)	2.4527	-0.0044	517 - 537	2.4571	2.4510	2.4521	0.3	2.4479	0.8	2.4133	1.6	126.5

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	11.0665	-0.0145	640 - 690	11.0740	11.0535	11.059	0.8	11.0425	0.9	10.945	1.1	104.5
Belgium	(BFr)	32.3185	-0.053	150 - 220	32.3700	32.2300	32.3035	0.6	32.2535	0.8	31.9185	1.2	106.1
Denmark	(DKr)	6.1718	-0.0037	700 - 735	6.1766	6.1685	6.1731	-0.2	6.1728	-0.1	6.1593	0.2	105.1
Finland	(FM)	4.8680	-0.0095	630 - 730	4.8849	4.8582	4.8658	0.6	4.8626	0.5	4.8455	0.5	82.0
France	(FFr)	5.4235	-0.0037	220 - 250	5.4290	5.4175	5.4217	0.4	5.4187	0.4	5.3855	0.7	105.9
Germany	(D)	1.5720	-0.0018	716 - 724	1.5736	1.5704	1.5714	0.5	1.5691	0.8	1.5487	1.5	107.2

CROSS RATES AND DERIVATIVES

UK INTEREST RATES

BASE LENDING RATES

WORLD INTEREST RATES

EURO CURRENCY INTEREST RATES

DO YOU WANT TO KNOW A SECRET?

WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

AFRICA

Prices supplied by Telekurs

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, December 20, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nisshin F&M	5.2m	520		Kawasaki Steel	2.9m	397	+1
NKK	4.1m	274	+5	Daihatsu Motor	2.7m	580	
Nippon Steel	4.0m	362	+3	Nikko Secs	2.6m	1070	+10
Mitsui	3.6m	835	+6	Sumitomo Metal	2.5m	317	+2
Mitsubishi Chem	3.0m	536	-1	Sankyu	2.2m	450	-9

INDICES

US INDICES

■ RATIOS

	Dec 16	Dec 9	Dec 2	Year ago
Dow Jones Ind. Div. Yield	2.80	2.88	2.84	2.67
	Dec 14	Dec 7	Nov 30	Year ago
S & P Ind. Div. yield	2.47	2.48	2.48	2.45
S & P Ind. P/E ratio	18.40	18.29	18.42	27.16

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Mar	461.75	461.55	-0.40	462.25	461.40	40,486	203,486
Jun	466.35	465.80	-0.25	466.35	465.80	64	6,903
Sep	-	471.00	-	471.40	471.00	2	2,153

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

■ TRADING ACTIVITY

■ CAC-40 STOCK INDEX FUTURES (MATIF)

Open interest figures for previous day.

4 pm close December 20

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
17⅞	11⅞	AAR	0.48	3.8	23	40	12¾	12⅝	12¾	+⅛
18⅞	12⅝	A L Labs A	0.18	1.0	42	1494	u19	18⅝	18¾	+⅛
79⅞	57⅝	AMP	1.68	2.4	21	1400	72⅞	70⅛	70¾	-1⅞
72¾	49⅛	AMR			108	1940	51⅛	50½	51	-⅛
5	3⅛	ARX			12	95	3⅝	3⅛	3⅛	
59⅞	38⅝	ASA	2.00	4.5	29	537	44⅝	44⅞	44½	+½
33	25⅛	AbbtL	0.76	2.3	17	8413	32⅞	32⅛	32⅛	
15¾	11⅞	AbtRX Pr	0.50	3.7	12	31	13⅝	13½	13⅝	
23⅞	17⅛	ABM Ind	0.52	2.2	14	42	23¾	23	23¾	
18	11⅛	Acptncain			10	678	14½	13⅝	14⅛	+⅝
31	20¾	ACE Ltd	0.44	2.0	21	1875	21⅞	21¾	21⅝	+½
12½	9	ACM Gvt In	1.09	11.5	8	458	9½	9⅜	9½	-⅛
10⅞	6⅞	ACM GvOpp	0.80	11.0		31	7¼	7⅛	7¼	
10⅝	6¾	ACM Gvt Sp	0.96	12.6		525	7⅝	7½	7⅝	+⅛
12	7⅞	ACM Gvt Sr	1.09	12.7		617	8¾	8½	8⅝	
11⅛	7⅞	ACM Man	1.08	12.8		276	8½	8⅜	8⅜	-⅛
9¾	8	ACM Managd	0.72	8.8		253	8⅞	8⅛	8⅛	
15½	8⅞	AcmeClv	0.44	4.2	21	365	10⅞	10½	10½	-¼
13⅞	6½	Acme Elect			13	57	13⅛	13	13	-⅛
31⅞	23	Acordia	0.60	1.9	15	11	31	30⅞	31	+⅛
13¾	5⅛	Actava	0.35	3.8	2	98	9⅝	9⅜	9⅜	-⅛
18⅞	11¼	Acuson			27	471	16¾	16	16⅝	+⅝
18⅞	15½	Adams Expr	0.68	4.4	6	572	15⅝	d15½	15⅝	
64	46½	Ad Micro	3.00	5.9		245	50½	50	50½	
31¼	16⅞	AdvMic	3.00	13.1	7	8846	22⅞	22½	22⅞	+⅞
6⅞	5	Advest Grp	0.16	3.1	15	55	5⅛	5⅛	5⅛	
20	15	Aero Inc	0.10	0.6	18	507	17	16⅛	17	+¼

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE

AMEX

Financial Times

هكذا من الأصل

4 pm close December 20

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
[illegible]										

- S - - T - - U - - V - - W - - X - Y - Z -

[illegible]

AMEX COMPOSITE PRICES

4 pm close December 20

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close December 20

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

AMERICA

Dow easier awaiting news from FOMC

Wall Street

US shares fluctuated in negative territory as traders waited to see if the Federal Reserve would raise interest rates at the meeting of its open market committee, *writes Lisa Bransten in New York.*

By 1 pm, the Dow Jones Industrial Average was down 17.49 at 3,773.21. The more broadly based Standard & Poor's 500 lost 1.11 at 456.80, the American Stock Exchange composite eased 0.83 to 424.90 and the Nasdaq composite shed 1.08 to 736.81. Trading volume on the NYSE was 177m shares.

Relatively mild data on consumer and producer prices released earlier this month was enough to convince most market players that the Fed would not boost the target federal funds rate at the FOMC meeting, *but there were some who* said the central bank might increase the rate by 50 basis points. So far this year the Fed has tightened six times, bringing the rate to 5½ per cent from 3 per cent in January.

Reaction was muted to news that the trade deficit for October widened to *$10.14bn from a* revised September figure of $9.35bn. Although the trade deficit continues to grow, the October figure was generally in line with economists' forecasts.

Several important announcements in the high technology sector moved share prices yesterday. Microsoft, which trades on the Nasdaq, fell $3¾ to $59 after the software maker announced that a new computer operating system may not be available until August of next year.

Intel rose $3 to $60⅞ after the company announced that it would replace Pentium chips on demand. Intel shares had been under pressure in the wake of growing publicity surrounding a flaw in the chip.

Also benefiting from Intel's announcement were computer makers Gateway 2000 and Dell Computer, which are among the primary users of the Pentium chip. Just after Intel's announcement, Gateway said it would broaden the lifetime warranty on all of its Pentium-based computers, causing its shares to rise $¾ to $22⅝. Dell was up $1⅛ at $38⅞.

Other technology shares were mixed. Hewlett-Packard rose $1¼ to $96⅞, while IBM dipped $⅞ to $71 and Apple Computer lost $⅞ at $38⅝.

Monsanto shares dropped $4⅜ to $68⅜ after the chemical company agreed to buy a specialty chemicals business from Merck. An analyst at PaineWebber, the broking house, downgraded the company, saying the agreement created the impression that Monsanto was not focusing on cutting costs. Merck gained $⅜ at $36⅝ on the news.

American Depositary Receipts of Glaxo Holdings gained $⅜ at $20⅞ after the drugs maker announced that it believed recent Gatt-related changes to US law would allow *for the extension of the patent* on its ulcer drug Zantac in the US.

The announcement pushed up Bristol-Myers Squibb, which also faces uncertainty regarding a patent expiration. Shares of that drugs company rose $1⅛ to $59⅞.

Telmex fell 2.6 per cent after the Mexican government stated that it was widening the band in which the peso trades against the dollar. ADRs of the Mexican telephone monopoly slipped $1⅞ to $47⅞.

Canada

Toronto stocks were mixed in quiet midday trading, with strength in gold shares being the only feature.

The TSE 300 index firmed 2.21 to 4,138.96 in volume of 36.8m shares valued at C$343.8m. Declining issues outpaced advances by 317 to 289, with 355 issues unchanged.

Of Toronto's 14 sub-indices, eight groups posted gains, led by precious metals, up 102.21 to 9,106.60.

Placer Dome continued to lead active gold issues, up C$⅝ at C$28¾, while Pegasus Gold gained C$¾ at C$15¼ in light volume, in spite of a downgrading by Donaldson, Lufkin and Jenrette, the New York broker.

Mexico rallies 7%

Stock prices advanced more than 7 per cent by mid-morning following the news of a devaluation of the peso against the US dollar.

The IPC index was ahead *160.87 at 2,391.78.*

The government explained that it had agreed to devalue the peso against the dollar in response to the pressure that had been caused to the country's financial markets as a result of instability in the southern state of Chiapas.

Officials added that Mexico would be able to meet its economic goals in 1995, and that the devaluation would be re-evaluated within the next six months.

The decision to widen the trading band was taken at the weekly meeting of the anti-inflation pact between the government and business and labour groups, known as the "Pacto".

Shares in Mexican ADRs were heavily affected by the news on expectations that earnings would be hit.

Sarah Lavers, head of research at Latinvest in London, commented that the announcement was basically good news.

It would make the country more competitive, and remove uncertainty, although there would be a cost in terms of the government's own credibility.

Gold supports SA trading

South African stocks ended broadly firmer as a strong gold price and a recent improvement in steadiness in world equity markets supported trade.

The overall index rose 50.4 to 5,747.3, industrials 25.9 to 6,883.4 and golds 37.1 to 1,900.8.

Among the leading stocks, De Beers slipped 25 cents to R93, Dries 75 cents to R57.25 and Anglos R9 to R235. Sasol was 75 cents better at R32.75 and Nedcor up R1 at R42.

EUROPE

Politics a mixed blessing in Milan and Madrid

Politics was a mixed blessing for bourses yesterday, *writes Our Markets Staff.* It kept Milan volatile, currently on the upside, and yet another strategist, Mr Jerry Evans at Kleinwort Benson, said that political concerns were overdone and that Italian equities offered solid value. But political developments continued to depress Madrid.

MILAN continued to forge ahead with the weak lira, at an all-time low against the D-Mark, offering an apparent bonus to foreign investors. The Comit index rose 5.65 to 612.91.

Analysts commented that the market was looking beyond the political chaos surrounding Mr Silvio Berlusconi's government, and hoping that it would soon be replaced by a caretaker institutional administration, with a prime minister selected from outside the political parties.

Blue chips were broadly higher. Fiat which set the pace early in the day finished L54 higher at L5,849, off a high of L5,885.

Telecom Italia, under pressure recently over the concessions that it pays to the government on its mobile telephones, rebounded L120 or 3.0 per cent to L4,095.

Credito Italiano picked up L16 to L1,660, with no takers seen for its Credito Romagnolo bid, but a fresh offer still not ruled out. Rolo finished L65 down at L18,850.

MADRID, already depressed about the political future of its prime minister, Mr Felipe González, dropped again after Monday's detention of a former state security chief in connection with anti-Eta undercover operations in the 1980s.

The general index fell 2.91 to 293.46. Banesto dropped another Pta27 to Pta699 after an intraday low of Pta694 as its former chairman, Mr Mario Conde, resumed his high court testimony related to criminal charges filed last week.

FRANKFURT recovered some of Monday's post bourse losses in the morning, but it could go no further in the afternoon as the Ibis indicated Dax ended at 2,080.16, up 13.57 after a session close of 2,079.93.

Turnover fell from DM5.2bn to DM4.5bn. Dealers said that the market was waiting to hear the result of yesterday's FOMC meeting in Washington, although the Fed was not actually expected to act on US interest rates this week.

There were contrasts in automotive stocks. BMW continued to rise, although analysts had said that its supply contract with Rolls Royce was a boost to sentiment, rather than BMW profits on any scale; the shares closed the afternoon another DM12 ahead at DM766; but Continental fell DM3.10 to DM218 after strength last week on a progress report from the tyremaker.

PARIS moved in a narrow range as investors remained quiet ahead of events in the US. The CAC-40 index drifted down 3.37 to 1,924.72.

Kleinwort Benson's French equity team remained neutral on the market, noting that in spite of a modest return of overseas institutions recently, upside was limited in the absence of the domestic investor and support from the bond market.

In addition, the broker said, sentiment remained pressured by the overhanging privatisation programme, as well as political uncertainty ahead of April's presidential election.

Danone rose FFr4 to FFr777, as the foods group took a controlling stake in Russia's biggest biscuit manufacturer. The acquisition fits in with the company's efforts to establish operations in emerging markets; it recently announced that it had taken a 50 per cent stake in an Argentine biscuit producer.

ZURICH was higher in low volume, supported by gains in Roche and UBS, and the SMI index rose 14.0 to 2,614.7.

UBS bearers gained SFr13 to SFr1,078, with the bank again said to be a buyer of the stock.

Roche certificates rose SFr55 to SFr6,190 and BBC was SFr13 higher at SFr1,120 amid indications that some foreign investors were raising their holdings of dollar sensitive stocks.

Ascom was SFr50 ahead at SFr1,350 in further response to the *weekend news* that the group had a new chief executive. Hero, the food group, saw its bearers up SFr13 to SFr658 and the registered SFr5 higher to SFr175, extending Monday's sharp gain on rumours that it was to be acquired by Del Monte for an estimated SFr1bn.

AMSTERDAM barely moved, the AEX index retreating 0.21 to 410.64.

Hoogovens outperformed, up Fl 1.40 to Fl 75.80; brokers said that it was supported by local investors. KPN, rising 70 cents to Fl 58.60, got similar treatment ahead of its expected listing as a constituent of the blue chip index.

Written and edited by William Cochrane, John Pitt and Michael Morgan

FT-SE Actuaries Share Indices

Dec 20							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1321.35	1321.87	1331.73	1331.71	1331.76	1332.65	1333.24	1333.21
FT-SE Eurotrack 200	1387.21	1388.51	1389.07	1388.88	1388.49	1389.66	1390.18	1389.10

	Dec 19	Dec 16	Dec 15	Dec 14	Dec 13
FT-SE Eurotrack 100	1332.17	1325.65	1328.74	1319.82	1309.30
FT-SE Eurotrack 200	1388.91	1378.77	1372.89	1365.54	1355.88

Base 1000 (26/10/90); Highday: 100 - 1333.[illegible] 200 - 1390.[illegible] Lowday: 100 - 1331.[illegible] 200 - 1387.14 † Partial

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	Aug 1994	Sept 1994	Oct 1994	Nov 1994	US $bn
Belgium	56.27	62.29	69.68	60.31	1.87
France	148.71	169.87	154.46	171.19	31.78
Germany	152.68	134.81	132.26	108.54	69.13
Italy	46,276	52,060	47,972	41,848	25.65
Netherlands	23.90	19.50	25.80	26.20	14.90
Spain	903.85	1,011.44	978.61	1,022.72	7.80
Switzerland	18.80	19.60	23.50	25.40	19.12
UK	52.78	48.96	43.91	48.06	75.24

Volumes represent purchases and sales.
Italian data adjusted to include off-market trading. Some figures may be revised.
Source: NatWest Securities

Germany suffered a steep drop in bourse turnover in November. 17.9 per cent after a 1.9 per cent decline in October, and 22.4 per cent down from the average of the previous three months. Share prices fell 1.7 per cent on the month, notes Mr James Cornish of NatWest Securities, which produces the figures. On the political scene there were worries about the narrowness of Chancellor Kohl's majority; and international interest dropped particularly sharply, with turnover on Seaq International, London's screen-based system for dealing in international stocks, down by 28.6 per cent.

Overall, European turnover declined by 3.2 per cent after falls of 3.4 per cent in October and 3.5 per cent in September. The fall was sustained in spite of turnover gains in five of the eight markets concerned, and reflected the weight of Germany in the total. The biggest individual rises in November came in France, up 10.8 per cent after a drop of 9.1 per cent in October, and in the UK, with a plus of 9.5 per cent against a previous fall of 10.3 per cent. France had underperformed for so long, *says Mr Cornish, that investors were beginning to* be attracted to its recovery prospects, while the UK was a cheap market in mid-economic recovery.

ASIA PACIFIC

Arbitrage buying lifts Nikkei for fifth day in a row

Tokyo

Arbitrage buying pushed share prices higher for the fifth consecutive trading day, as the rise of the Nikkei index above a technical resistance level cheered investors, *writes Emiko Terazono in Tokyo.*

The Nikkei 225 average rose 136.13 to 19,406.98, having fluctuated between 19,153.64 and 19,417.88. Having lost ground in the morning on profit-taking, futures purchasing in the afternoon prompted index-linked buying, and the Nikkei's rise above 19,340, considered by *traders as an important resistance level,* prompted short-covering.

Volume was 250m shares, against 254m. "Most of the trading is still arbitrage linked, but some foreign investors are buying to cover their short positions ahead of the year-end," said Mr Yasuo Ueki at Nikko Securities. Institutional investors remained absent ahead of yesterday's FOMC meeting in the US.

The Topix index of all first section stocks rose 10.59 to 1,524.90, while the Nikkei 300 *moved up 1.79 to 281.76.* Advances led declines by 724 to 265, with 192 issues unchanged. In London the ISE/Nikkei 50 index gained 0.59 at 1,272.74.

Overseas investors bought financials: Industrial Bank of Japan and Dai-Ichi Kangyo Bank rose Y30 apiece to Y2,830 and Y1,880 respectively. Brokers were also higher, with Nomura Securities adding Y30 at Y2,030.

Reports of the popularity of new 32-bit electronic games lifted Sony Y50 to Y5,550. Sega Enterprises, the video game maker which has also recently introduced its new game hardware, climbed Y110 to Y5,750. But some high-technology issues lost ground on profit-taking: Fujitsu fell Y7 to Y970.

Steel issues rallied on bargain hunting, having been sold off by overseas investors. NKK put on Y5 at Y274 and Nippon Steel Y3 at Y362.

Sakai Ovex, a synthetic fabrics manufacturer, lost Y6 at Y657 after fluctuating in speculative trading.

Privatisation stocks were higher, with Nippon Telegraph and Telephone up Y5,000 to Y844,000. Investors were encouraged by reports that the government had approved NTT's plan to lift basic subscription charges and directory assistance rates from February next year.

In Osaka, the OSE average rose 118.91 to 21,045.85 in volume of 106.9m shares.

Roundup

The region was mixed, with many investors awaiting the outcome of yesterday's US FOMC meeting.

HONG KONG reversed an early 99-point loss but trading was relatively thin ahead of the US rates decision. The Hang Seng index ended 88.99 ahead at 8,267.33, in turnover of HK$2.2bn, down from Monday's HK$2.8bn.

Brokers said that the late rally was fuelled by buy orders from Europe for Hang Seng index constituents.

Overall market sentiment remained bearish and activity was subdued as many foreign fund managers had already closed their books for the year.

Banks were the best performers, with the sub-index rising 2.1 per cent. HSBC and Hang Seng Bank added HK$1.50 each at HK$83.75 and HK$57. Bank of East Asia surged HK$1.55 to HK$30.80 on news that it will disclose its inner reserves.

SEOUL remained worried about liquidity and the composite index dipped 4.63 to 1,023.99, a sixth consecutive decline.

Brokers said that unfounded rumours that the government would soon scrap cash deposit requirements for institutional investors failed to boost blue chips before government officials denied that such a step was planned.

Korea Mobile Telecom again went limit down, losing Won10,000 to Won443,000, and Samsung Electronics fell Won1,300 to Won107,000.

KUALA LUMPUR reversed an easier morning trend to end higher, led by institutional buying of Tenaga Nasional and Telekom Malaysia. The composite index rose 8.94 to 966.19, although activity was subdued.

Telekom advanced 40 cents to M$17.70 and Tenaga was up 30 cents at M$10.50.

Pernas International added 38 cents at M$3.62 after its proposed one-for-two bonus issue was approved by the securities commission.

TAIPEI lost Monday's gains on a bout of heavy profit-taking. The weighted index fell 1.8 per cent or 130.02 to 6,925.28. Turnover was T$104bn.

The financial sector was the hardest hit, with ICBC falling T$5.50 or 5 per cent to T$104.50 and Chang Hwa Bank down T$10 or 4.8 per cent to T$198. Textiles were also weak, Chung Shing Textile slipping 40 cents to T$21.40.

Shinkong Synthetic Fibres went against the trend, appreciating T$1.10 or 2.55 per cent to T$44.90.

MANILA saw selective buying of heavily weighted stocks, including PLDT and San Miguel, which helped to lift the composite index 16.78 to 2,740.04. *Turnover totalled a* moderate 2.37bn pesos.

Some brokers commented that many investors were taking positions in blue chips ahead of dividend declarations in the first two months of 1995.

The commercial-industrial sector led advancing areas, gaining 17.61 at 4,037.17.

SYDNEY was easier as it tracked the overnight performance of Wall Street. The All Ordinaries index was off 1.4 at 1,898.6 but after an intraday low of 1,890.8. Trading was modest, with shares valued at A$397m changing hands.

Mining stocks were generally higher, however, with the exception of CRA, 2 cents *softer at A$17.82.*

Banks were mixed, with NAB retreating 14 cents to A$10.30, mainly on options-linked deals, as Westpac rose 5 cents to A$4.33 and CBA 4 cents to A$8.17.

BANGKOK picked up just before the close on late speculative buying in the finance sector. The SET index improved 14.90 to 1,352.68 in moderate turnover of Bt4.7bn.

The finance sector rose 2.6 per cent, with Phatra Thanakit firming Bt7 to Bt199.

KARACHI plunged to a year's low on continuing worries about trouble and violence in the city. The KSE 100-share index shed 61.41 or 3 per cent *to 1,937.13. Declining issues led* advances by 220 to 45.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	MONDAY DECEMBER 19 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY DECEMBER 16 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	171.48	0.3	162.82	108.55	140.29	146.82	0.0	3.93	171.00	162.20	108.25	139.70	146.83	189.15	157.28	158.97
Austria (16)	177.68	0.7	168.63	112.42	145.29	145.30	0.9	1.12	176.32	167.25	111.62	144.05	144.03	198.89	167.46	179.55
Belgium (35)	165.67	-0.4	157.32	104.88	135.55	132.26	-0.1	4.17	166.26	157.71	105.25	135.83	132.39	177.04	159.92	159.92
Brazil (28)	180.75	1.0	171.64	114.43	147.89	281.87	1.0	0.73	178.96	169.76	113.29	146.20	279.18	-	-	-
Canada (103)	127.87	0.2	121.43	80.96	104.63	128.92	0.5	2.67	127.64	121.07	80.80	104.27	128.28	145.31	120.64	131.97
Denmark (33)	236.61	-0.7	224.68	149.79	193.59	198.73	-0.4	1.49	238.20	225.95	150.80	194.60	199.62	275.79	234.08	235.24
Finland (24)	176.93	0.7	168.01	112.02	144.77	181.11	1.0	0.77	175.66	166.62	111.20	143.50	179.31	201.41	116.48	118.48
France (102)	163.53	-0.1	155.29	103.53	133.80	139.22	0.1	3.08	163.76	155.34	103.67	133.79	139.10	185.37	159.34	172.19
Germany (58)	139.13	0.2	132.12	88.09	113.84	113.84	0.3	1.63	138.86	131.72	87.91	113.44	113.44	150.40	128.37	136.50
Hong Kong (56)	327.97	0.2	311.45	207.64	268.35	325.61	0.2	3.60	327.14	310.32	207.10	267.26	325.00	508.56	305.99	434.45
Ireland (14)	197.54	0.3	187.58	125.06	161.63	161.12	0.4	3.53	196.96	186.83	124.69	160.91	160.45	216.60	177.56	183.41
Italy (59)	70.52	-0.4	66.97	44.65	57.70	88.75	0.3	1.82	70.78	67.14	44.81	57.82	88.48	97.78	65.87	69.02
Japan (468)	152.41	0.4	144.73	96.49	124.71	96.49	0.4	0.80	151.86	144.04	96.13	124.06	96.13	170.10	127.18	136.49
Malaysia (97)	467.88	0.8	444.30	296.21	382.83	462.40	0.9	1.82	464.19	440.31	293.86	379.23	458.43	621.63	430.71	545.44
Mexico (18)	1829.58	-3.7	1737.36	1158.29	1496.96	6930.67	-3.8	1.48	1899.84	1802.10	1202.71	1552.07	7191.21	2647.08	1696.28	2235.03
Netherland (19)	211.73	0.4	201.06	134.04	173.24	170.24	0.6	3.39	210.96	200.11	133.55	172.35	169.32	223.30	191.28	196.62
New Zealand (14)	71.58	0.0	67.97	45.32	58.57	59.36	-0.2	4.93	71.58	67.90	45.31	58.48	59.47	77.89	62.05	64.25
Norway (23)	202.70	0.2	192.48	128.33	165.85	188.57	0.2	1.75	202.33	191.92	128.09	165.29	188.26	211.74	171.36	172.95
Singapore (44)	368.06	1.1	349.51	233.02	301.15	248.74	1.2	1.72	364.05	345.33	230.47	297.42	245.61	401.38	294.68	347.99
South Africa (59)	332.07	1.6	315.33	210.23	271.70	290.68	0.9	2.27	326.70	309.90	206.82	266.90	288.13	342.00	205.55	241.96
Spain (38)	136.67	-0.9	129.78	86.52	111.82	136.96	-0.6	4.17	137.85	130.76	87.27	112.62	137.79	155.79	132.81	138.88
Sweden (36)	226.76	-0.6	215.34	143.56	185.54	253.54	-0.4	1.58	228.17	216.43	144.46	186.41	254.59	242.81	168.46	188.46
Switzerland (47)	160.28	-0.4	152.20	101.47	131.14	132.48	0.0	1.84	160.93	152.65	101.88	131.47	132.53	176.56	149.91	158.91
Thailand (46)	154.33	0.2	146.55	97.70	126.27	150.51	0.2	2.44	154.02	146.10	97.51	125.83	150.14	-	-	-
United Kingdom (204)	192.41	0.6	182.71	121.81	157.43	182.71	0.7	4.22	191.29	181.45	121.10	156.28	181.45	214.96	181.11	201.48
USA (514)	187.33	-0.2	177.89	118.60	153.27	187.33	-0.2	2.94	187.73	178.07	118.85	153.37	187.73	199.04	178.95	189.67
Americas (883)	174.75	-0.2	165.94	110.63	142.98	145.41	-0.2	2.87	175.18	166.17	110.90	143.12	145.75	-	-	-
Europe (706)	165.87	0.1	157.51	105.01	135.72	149.45	0.3	3.14	165.65	157.13	104.86	135.32	148.94	178.58	160.59	166.46
Nordic (115)	216.60	-0.3	205.68	137.13	177.22	206.81	-0.1	1.43	217.34	206.16	137.59	177.55	207.09	233.91	181.89	181.89
Pacific Basin (793)	160.16	0.4	152.09	101.40	131.05	105.57	0.4	1.18	159.55	151.35	101.01	130.35	105.18	176.86	141.04	148.50
Euro-Pacific (1501)	162.45	0.3	154.27	102.85	132.92	122.90	0.4	2.00	162.01	153.68	102.58	132.36	122.48	175.14	153.52	155.81
North America (617)	183.64	-0.2	174.38	116.26	150.25	183.31	-0.2	2.93	184.01	174.54	116.49	150.32	183.65	192.73	175.67	186.28
Europe Ex. UK (504)	148.07	-0.1	140.61	93.74	121.15	129.60	0.1	2.50	148.26	140.64	93.86	121.12	129.43	158.12	144.12	144.62
Pacific Ex. Japan (325)	237.01	0.5	225.07	150.06	193.93	207.58	0.4	3.21	235.98	223.82	149.38	192.77	206.79	298.21	224.17	263.10
World Ex. US (1709)	164.29	0.3	156.01	104.01	134.42	126.45	0.3	2.03	163.88	155.43	103.73	133.87	126.02	176.65	155.28	157.43
World Ex. UK (2019)	168.81	0.0	160.31	106.87	138.12	141.35	0.1	2.15	168.75	160.07	106.83	137.86	141.24	178.59	162.26	163.98
World Ex. Japan (1755)	182.57	0.0	173.37	115.59	149.38	173.81	0.0	2.98	182.61	173.21	115.60	149.18	173.73	195.20	178.34	186.06
The World Index (2223)	170.90	0.1	162.28	108.19	139.83	145.10	0.1	2.35	170.74	161.96	108.09	139.49	144.90	180.80	165.72	167.26

Latest prices were unavailable for this edition.

هكذا من الاصل